



Dave Yost • Auditor of State



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Fairlawn Local School District  
Shelby County  
18800 Johnston Road  
Sidney, Ohio 45365

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, Ohio (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, Ohio, as of June 30, 2016 and 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Emphasis of Matter**

As discussed in the 2015 notes to the financial statements, Note 17, the District restated the July 1, 2014 fund balance for the general fund and other governmental funds. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2017 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 23, 2017

**Fairlawn Local School District**  
*Statement of Net Position-Cash Basis*  
 June 30, 2016

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>Assets</b>   |                            |
| Equity in Pooled Cash, Cash Equivalents and Investments | \$7,244,226                |
| Total Assets  | \$7,244,226                |
| <br>Net Position  |                            |
| Restricted for:   |                            |
| Debt Service  | \$960,472                  |
| Other Purposes  | \$971,886                  |
| Unrestricted (Deficit)                                  | \$5,311,868                |
| Total Net Position                                      | \$7,244,226                |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Activities - Cash Basis*  
For the Fiscal Year Ended June 30, 2016

|  | Program Revenues |                                   |  | Net (Expense) Revenue<br>and Changes in Net Position |
|--|------------------|-----------------------------------|--|--|
|  | Expenses         | Charges for<br>Services and Sales | Operating Grants,<br>Contributions<br>and Interest |  |
| <b>Governmental Activities</b>                             |                  |                                   |  |  |
| Instruction:   |                  |                                   |  |  |
| Regular  | \$2,213,757      | \$1,584,894                       | \$62,385   | (566,478)  |
| Special  | \$549,346        | 115,774                           | 193,244  | (240,328)  |
| Adult/Continuing   | \$368            |                                   |  | (368)  |
| Support Services:  |                  |                                   |  |  |
| Pupil  | 387,270          |                                   |  | (387,270)  |
| Instructional Staff  | 248,783          |                                   |  | (248,783)  |
| Board of Education   | 10,905           |                                   |  | (10,905)   |
| Administration   | 581,707          |                                   |  | (581,707)  |
| Fiscal   | 255,468          |                                   |  | (255,468)  |
| Business   | 6,186            |                                   |  | (6,186)  |
| Operation and Maintenance of Plant                         | 741,000          |                                   |  | (741,000)  |
| Pupil Transportation                                       | 502,961          |                                   |  | (502,961)  |
| Operation of Non-Instructional                             | 261,385          | 111,761                           | 104,880  | (44,744)   |
| Extracurricular Activities                                 | 243,987          | 46,597                            |  | (197,390)  |
| Capital Outlay   | 886,014          |                                   |  | (886,014)  |
| Debt Service   |                  |                                   |  |  |
| Principal  | 165,000          |                                   |  | (165,000)  |
| Interest and Fiscal Charges                                | 131,095          |                                   | 44,542   | (86,553)   |
| Bond Issuance Costs  | 107,092          |                                   |  | (107,092)  |
| <i>Total Governmental Activities</i>                       | <u>7,292,324</u> | <u>1,859,026</u>                  | <u>405,051</u>                                     | <u>(5,028,247)</u>                                   |
| <b>General Revenues</b>                                    |                  |                                   |  |  |
| Property Taxes Levied for:                                 |                  |                                   |  |  |
| General Purposes   |                  |                                   |  | 1,518,177  |
| Debt Service   |                  |                                   |  | 357,468  |
| Income Taxes Levied for:                                   |                  |                                   |  |  |
| General Purposes   |                  |                                   |  | 350,553  |
| Grants and Entitlements not Restricted to Specific Program |                  |                                   |  | 2,626,199  |
| Investment Earnings  |                  |                                   |  | 42,489   |
| Miscellaneous  |                  |                                   |  | 219,092  |
| <i>Total General Revenues</i>                              |                  |                                   |  | <u>5,113,978</u>                                     |
| Advance  |                  |                                   |  | (10,000)   |
| Payment to Refunded Bond Escrow Agent                      |                  |                                   |  | (4,685,026)  |
| Refunding Bonds Issued                                     |                  |                                   |  | 4,295,000  |
| Premium on Refunding Bond                                  |                  |                                   |  | 497,118  |
| <i>Total</i>   |                  |                                   |  | <u>97,092</u>  |
| Change in Net Position                                     |                  |                                   |  | 182,823  |
| <i>Net Position Beginning of Year</i>                      |                  |                                   |  | <u>7,061,403</u>                                     |
| <i>Net Position End of Year</i>                            |                  |                                   |  | <u><u>7,244,226</u></u>                              |

See accompanying notes to the basic financial statements



**Fairlawn Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2016*

|   | <b>General</b>      | <b>Bond<br/>Retirement</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|---------------------|----------------------------|---|---|
| <b>Assets</b>   |                     |                            |   |   |
| Equity in Pooled Cash, Cash Equivalents and Investments | \$ 5,314,269        | \$ 960,472                 | \$ 969,485                              | \$ 7,244,226                            |
| <i>Total Assets</i>                                     | <u>\$ 5,314,269</u> | <u>\$ 960,472</u>          | <u>\$ 969,485</u>                       | <u>\$ 7,244,226</u>                     |
| <b>Fund Balances</b>                                    |                     |                            |   |   |
| Restricted  |                     | 960,472                    | 971,886                                 | 1,932,358                               |
| Committed   | 47,076              | -                          | -                                       | 47,076                                  |
| Assigned  | 76,660              | -                          | -                                       | 76,660                                  |
| Unassigned (deficit)                                    | 5,190,533           | -                          | (2,401)                                 | 5,188,132                               |
| <i>Total Fund Balances (Deficits)</i>                   | <u>\$5,314,269</u>  | <u>\$960,472</u>           | <u>\$969,485</u>                        | <u>\$7,244,226</u>                      |

See accompanying notes to the basic financial statements

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

|   | General            | Bond Retirement  | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>   |                    |                  |                                |                                |
| Taxes   | \$ 1,851,230       | \$ 357,468       | \$ 17,500                      | \$2,226,198                    |
| Intergovernmental                                       | 2,615,913          | 44,542           | 370,795                        | 3,031,250                      |
| Interest  | 42,482             | -                | 7                              | 42,489                         |
| Tuition and Fees  | 1,694,800          | -                | -                              | 1,694,800                      |
| Extracurricular Activities                              | -                  | -                | 46,597                         | 46,597                         |
| Charges for Services                                    | -                  | -                | 117,629                        | 117,629                        |
| Miscellaneous   | 183,628            | 9,738            | 25,726                         | 219,092                        |
| <i>Total Revenues</i>                                   | <u>6,388,053</u>   | <u>411,748</u>   | <u>578,254</u>                 | <u>7,378,055</u>               |
| <b>Expenditures</b>                                     |                    |                  |                                |                                |
| Current:  |                    |                  |                                |                                |
| Instruction:  |                    |                  |                                |                                |
| Regular   | 2,137,827          |                  | 75,930                         | 2,213,757                      |
| Special   | 395,760            |                  | 153,586                        | 549,346                        |
| Adult/Continuing  | 368                |                  |                                | 368                            |
| Support Services:                                       |                    |                  |                                |                                |
| Pupil   | 342,868            |                  | 44,402                         | 387,270                        |
| Instructional Staff                                     | 248,783            |                  |                                | 248,783                        |
| Board of Education                                      | 10,905             |                  |                                | 10,905                         |
| Administration  | 581,706            |                  |                                | 581,706                        |
| Fiscal  | 248,214            | 7,254            |                                | 255,468                        |
| Business  | 6,186              |                  |                                | 6,186                          |
| Operation and Maintenance of Plant                      | 741,000            |                  |                                | 741,000                        |
| Pupil Transportation                                    | 502,961            |                  |                                | 502,961                        |
| Operation of Non-Instructional Services                 |                    |                  | 261,385                        | 261,385                        |
| Extracurricular Activities                              | 194,892            |                  | 49,096                         | 243,988                        |
| Capital Outlay  | 886,014            |                  |                                | 886,014                        |
| Debt Service:   |                    |                  |                                |                                |
| Principal Retirement                                    |                    | 165,000          |                                | 165,000                        |
| Interest and Fiscal Charges                             |                    | 131,095          |                                | 131,095                        |
| Bond Issuance Costs                                     |                    | 107,092          |                                | 107,092                        |
| <i>Total Expenditures</i>                               | <u>6,297,484</u>   | <u>410,441</u>   | <u>584,399</u>                 | <u>7,292,324</u>               |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i> | <u>90,569</u>      | <u>1,307</u>     | <u>(6,145)</u>                 | <u>85,731</u>                  |
| <b>Other Financing Sources (Uses)</b>                   |                    |                  |                                |                                |
| Advance Out   | (10,000)           |                  |                                | (10,000)                       |
| Transfers In  | -                  |                  | 44,000                         | 44,000                         |
| Transfers Out   | (44,000)           |                  |                                | (44,000)                       |
| Refunding Bonds Issued                                  |                    | 4,295,000        |                                | 4,295,000                      |
| Premium on Refunding Bonds                              |                    | 497,118          |                                | 497,118                        |
| Payment to Refunded Bond Escrow Agent                   |                    | (4,685,026)      |                                | (4,685,026)                    |
| <i>Total Other Financing Sources (Uses)</i>             | <u>(54,000)</u>    | <u>107,092</u>   | <u>44,000</u>                  | <u>97,092</u>                  |
| <i>Net Change in Fund Balances</i>                      | 36,569             | 108,399          | 37,855                         | 182,823                        |
| <i>Fund Balances (Deficits) Beginning<br/>of Year</i>   | <u>5,277,700</u>   | <u>852,073</u>   | <u>931,630</u>                 | <u>7,061,403</u>               |
| <i>Fund Balances (Deficits) End of Year</i>             | <u>\$5,314,269</u> | <u>\$960,472</u> | <u>\$969,485</u>               | <u>\$7,244,226</u>             |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Receipts, Disbursements, and Changes*  
*In Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

|   | Budgeted Amounts   |                    | Actual*            | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|--------------------|--------------------|--------------------|---|
|   | Original           | Final              |                    |   |
| <b>Revenues</b>                                     |                    |                    |                    |   |
| Taxes   | \$1,613,482        | \$1,613,482        | \$1,851,230        | \$237,748   |
| Intergovernmental                                   | 2,600,000          | 2,600,000          | 2,615,913          | 15,913  |
| Interest  | 42,000             | 42,000             | 42,482             | 482   |
| Tuition and Fees                                    | 1,660,000          | 1,660,000          | 1,694,800          | 34,800  |
| Miscellaneous                                       | 157,969            | 157,969            | 183,628            | 25,659  |
| <i>Total Revenues</i>                               | <u>6,073,451</u>   | <u>6,073,451</u>   | <u>6,388,053</u>   | <u>314,602</u>  |
| <b>Expenditures</b>                                 |                    |                    |                    |   |
| Current:  |                    |                    |                    |   |
| Instruction:  |                    |                    |                    |   |
| Regular   | 2,172,965          | 2,172,965          | 2,163,852          | 9,113   |
| Special   | 400,000            | 400,000            | 395,760            | 4,240   |
| Adult/Continuing                                    | 500                | 500                | 368                | 132   |
| Support Services:                                   |                    |                    |                    |   |
| Pupils  | 355,000            | 355,000            | 353,620            | 1,380   |
| Instructional Staff                                 | 252,000            | 252,000            | 251,910            | 90  |
| Board of Education                                  | 11,000             | 11,000             | 10,905             | 95  |
| Administration                                      | 550,000            | 550,000            | 531,516            | 18,484  |
| Fiscal  | 260,000            | 260,000            | 250,836            | 9,164   |
| Business  | 8,000              | 8,000              | 7,286              | 714   |
| Operation and Maintenance of Plant                  | 770,000            | 770,000            | 767,412            | 2,588   |
| Pupil Transportation                                | 505,000            | 505,000            | 503,201            | 1,799   |
| Extracurricular Activities                          | 200,000            | 200,000            | 198,099            | 1,901   |
| Capital Outlay                                      | 1,086,000          | 1,143,000          | 887,690            | 255,310   |
| <i>Total Expenditures</i>                           | <u>6,570,465</u>   | <u>6,627,465</u>   | <u>6,322,455</u>   | <u>305,010</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(497,014)</u>   | <u>(554,014)</u>   | <u>65,598</u>      | <u>619,612</u>  |
| <b>Other Financing Sources (Uses)</b>               |                    |                    |                    |   |
| Advance Out   | (10,000)           | (10,000)           | (10,000)           | 0   |
| Transfers Out                                       | (44,000)           | (44,000)           | (44,000)           | 0   |
| Total Other Financing Sources (Uses)                | <u>(54,000)</u>    | <u>(54,000)</u>    | <u>(54,000)</u>    | <u>0</u>  |
| <i>Net Change in Fund Balance</i>                   | <u>(551,014)</u>   | <u>(608,014)</u>   | <u>11,598</u>      | <u>619,612</u>  |
| <i>Fund Balance Beginning of Year</i>               | 4,983,717          | 4,983,717          | 4,983,717          | 0   |
| Prior Year Encumbrances Appropriated                | <u>192,750</u>     | <u>192,750</u>     | <u>192,750</u>     | <u>0</u>  |
| <i>Fund Balance End of Year</i>                     | <u>\$4,625,453</u> | <u>\$4,568,453</u> | <u>\$5,188,065</u> | <u>\$619,612</u>  |

See accompanying notes to the basic financial statements

\* - includes actual expense plus encumbrances

**Fairlawn Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2016*

|  | Private Purpose<br>Trust |          |
|--|--------------------------|----------|
|  | Scholarship              | Agency   |
| <b>Assets</b>  |                          |          |
| Equity in Pooled Cash, Cash Equivalents, and Investments | \$0                      | \$93,474 |
| <b>Net Position</b>                                      |                          |          |
| Held in Trust for Scholarships                           | \$0                      | \$0      |
| Held in Student Activities                               | \$0                      | \$93,474 |
| <i>Total Net Position</i>                                | \$ -                     | \$93,474 |

See accompanying notes to the basic financial statements

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

|                                       | Private Purpose<br>Trust |
|---------------------------------------|--------------------------|
|                                       | Scholarship              |
| <b>Additions</b>                      |                          |
| Gifts and Donation                    | \$1,500                  |
| <b>Deductions</b>                     |                          |
| Noninsturcitional Services            | \$2,000                  |
| <i>Change in Net Position</i>         | (500)                    |
| <i>Net Position Beginning of Year</i> | 500                      |
| <i>Net Position End of Year</i>       | \$0                      |

See accompanying notes to the basic financial statements

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

Fairlawn Local District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1953. The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 500th smallest in the State of Ohio (among 612 Districts) in terms of enrollment. This Board controls the District's one instructional/support facility staffed by 37 non-certificated employees, 39 certificated full time teaching personnel and 3 administrative employees to provide services to 653 students and other community members.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Fairlawn Local School 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 organizations' 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. There are no component units of the Fairlawn Local School District.

The District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Council (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), and West Central Ohio Special Education Regional Resource Center (SERRC), jointly governed organizations. The District is also associated with the Sheakley Workers' Compensation Group Rating Plan, SOEPC Insurance Program and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 13 and 14 to the cash basis financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the end of the fiscal year.

**A. 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 functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The District classifies each fund as either governmental or fiduciary.

**Governmental:** The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the District's major governmental funds:

**General Fund:** The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

**Bond Retirement Fund:** The Bond Retirement Fund accounts for resources received from property taxes to pay school improvement general obligation bond principal and interest.

**Fiduciary Funds:** Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the District holds under trust agreements for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a college scholarship program.

Agency funds are custodial in nature, where the District deposits and pays cash as directed by another entity or individual. The District's agency fund accounts for student activities' cash.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation**

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

Government-wide financial statements: The statement of net position and the statement of activities display information about the District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities. The District has no business-type activities.

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

Fund Financial Statements: Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

**C. Cash, Cash Equivalents and Investments**

The District deposits and invests cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as equity in pooled cash, cash equivalents and investments on the financial statements.

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash and cash equivalents and investments. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2016 was \$42,482 including \$11,895 assigned from other District funds.

**D. Restricted Assets**

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for capital improvements. See Note 11 for additional information regarding these set-asides. There are no restricted assets at June 30, 2016.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Inventory and Prepaid Items**

On the cash basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

**F. Capital Assets**

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

**G. Compensated Absences**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**H. Long-term Obligations**

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

**I. Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education.

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

**J. Net Position**

The statements report restricted net position when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

**K. Interfund Activity**

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. During fiscal year 2016, the District advanced \$10,000 from the General Fund to the FFA Farm Fund (an Agency Fund). This advance had not been repaid as of June 30, 2016.

**L. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the District's control that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in fiscal year 2016.

**M. Budgetary Data**

Ohio law requires the District to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The District uses the object level within the General Fund and Fund level for all other funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Budgetary Data (Continued)**

The certificate of estimated resources may be amended during the year if the District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

**N. Pensions**

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

**3. COMPLIANCE**

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

**4. PROPERTY AND INCOME TAXES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**4. PROPERTY AND INCOME TAXES (Continued)**

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Shelby 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, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

|  | 2015 Second - Half Collections |         | 2016 First - Half Collections |         |
|--|--------------------------------|---------|-------------------------------|---------|
|  | Amount                         | Percent | Amount                        | Percent |
| Agricultural/ Residential<br>and Other Real Estate | \$ 65,852,800                  | 92.00%  | \$ 65,363,570                 | 92.00%  |
| Public Utility Personal                            | 5,377,030                      | 8.00    | 5,403,540                     | 8.00    |
| Total  | \$ 71,229,830                  | 100.00% | \$ 70,767,110                 | 100.00% |
| Tax rate per \$1,000 of<br>assessed valuation      | \$31.32                        |         | \$31.32                       |         |

The District levies a voted income tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

**5. INTERFUND TRANSFERS**

Interfund cash transfers for the year ended June 30, 2016 were as follows:

| <b>Transfer from</b> | <b>Transfer to</b> | <b>Amount</b> |
|----------------------|--------------------|---------------|
| General Fund         | Food Service Fund  | \$ 44,000     |

The transfer from the General Fund to the Food Service fund was for operating purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. The State Treasurer's investment pool (STAR Ohio, a Rule 2-a7-like pool);
7. Certain bankers' acceptances and commercial paper notes;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the purchase date unless matched to a specific District obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Undeposited Cash:** At year-end, the District's had \$100 in undeposited cash on hand, included as part of *Equity in pooled cash and cash equivalents and investments*.

**Deposits:** At year-end, the carrying amount of the District's deposits was \$4,588,143 and the bank balance was \$4,645,355. Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2016, \$500,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the District's remaining bank balance of \$4,145,355 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments:** As of June 30, 2016 the District had various investments – Federal National Mortgage Association Note with carrying value of \$1,000,000 maturing on June 16, 2021 and Federal Farm Credit Bank Bond with carrying value of \$999,457 maturing on October 8, 2020. The District also owns Well Fargo, Harris Bank, and Ally Bank Certificates of Deposit each for \$250,000 and each are covered entirely by FDIC. Total District investments are \$2,749,457.

The District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within five years from the date of investments unless they are matched to a specific obligation or debt of the District. Purchasing investments that cannot be held until the maturity date is also restricted.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**7. RISK MANAGEMENT**

**A. Commercial Insurance**

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 fiscal year 2008, the District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

|   |               |
|---|---------------|
| Buildings and Contents – replacement cost | \$ 22,000,000 |
| General Liability - Per Occurrence        | 6,000,000     |
| General Liability –Aggregate              | 8,000,000     |
| Automobile Liability                      | 6,000,000     |
| Uninsured Motorists                       | 8,000,000     |

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

**B. Workers' Compensation**

For fiscal year 2016, the District participated in the Sheakely Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays \$350 enrollment fee to the Plan to cover the costs of administering the program.

**C. Employee Medical Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) consisting of seven school districts and an educational service center. The District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Sun Life for life insurance benefits

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(Continued)

**8. DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

Age and service requirements for retirement are as follows:

|  | Eligible to<br>Retire on or before<br>August 1, 2017 *                          | Eligible to<br>Retire on or after<br>August 1, 2017                                  |
|--|---|--|
| Full Benefits  | Any age with 30 years of service credit   | Age 67 with 10 years of service credit; or<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits   | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>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. 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 District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent.

The District’s contractually required contribution to SERS was \$164,544 for fiscal year 2016.

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

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$294,420 for fiscal year 2016.

*Net Pension Liability*

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

|  | SERS        | STRS        | TOTAL       |
|--|-------------|-------------|-------------|
| Proportionate Share of the Net Pension Liability | \$1,906,378 | \$5,288,567 | \$7,194,945 |
| Proportion of the Net Pension Liability          | .0334095%   | .01913577%  |             |

*Actuarial Assumptions - SERS*

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions – SERS (continued)*

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

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

|  |  |
|--|--|
| Wage Inflation                               | 3.25 percent   |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent                                   |
| COLA or Ad Hoc COLA                          | 3 percent  |
| Investment Rate of Return                    | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method                        | Entry Age Normal   |
|  |  |

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions – SERS (continued)*

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

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

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

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District’s proportionate share<br>of the net pension liability | \$2,643,462            | \$1,906,378                         | \$1,285,693            |

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

*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 Schools District's net pension liability is expected to be significant.

*Actuarial Assumptions - STRS*

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above. Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

| Asset Class          | Target     |   | Long Term Expected  |   |
|----------------------|------------|---|---------------------|---|
|                      | Allocation |   | 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     | % |                     |   |

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share<br>of the net pension liability | \$7,346,218            | \$ 5,288,567                        | \$3,548,515            |

**9. POST-EMPLOYMENT BENEFITS**

**School Employees Retirement System**

**Plan Description** - The District participates in two cost-sharing multiple employer defined benefit OPEB (other post-employment benefits) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**Health Care Plan** – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS (Continued)**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contributions to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0 percent.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS cover payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$9,365, and \$16,089, respectively. The full amount has been contributed for all three fiscal years.

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 both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**State Teachers Retirement System of Ohio**

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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$19,823, respectively. The full amount has been contributed for all three fiscal years.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**10. CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2016 will not have a material adverse effect on the District.

**B. Foundation**

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

**C. Litigation**

There are currently no matters in litigation with the District as defendant.

**11. SET-ASIDE CALCULATIONS**

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

The following cash basis information describes the change in the year-end set-aside amounts for capital acquisition.

|   |                    |
|---|--------------------|
| Balance June 30, 2015                   | \$ -               |
| Current Year Set Aside Requirement      | 111,304            |
| Qualifying Expenditures                 | <u>(111,304)</u>   |
| Set Aside Reserve Balance June 30, 2016 | <u><u>\$ -</u></u> |



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**12. LONG TERM LIABILITIES**

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

| <b>School Improvement</b>              | <b>Principal<br/>Outstanding<br/>6/30/2015</b> | <b>Additions</b>    | <b>Reductions</b>     | <b>Principal<br/>Outstanding<br/>6/30/2016</b> | <b>Amount<br/>Due in<br/>One Year</b> |
|--|--|---------------------|-----------------------|--|---------------------------------------|
| 2008 Term Bonds - 4 - 4.2%             | \$ 4,445,000                                   | \$ -                | \$ (4,445,000)        | \$ -   |                                       |
| 2008 Serial Bonds - 4%                 | \$ 165,000                                     |                     | \$ (165,000)          | \$ -   | \$ -                                  |
| 2008 Capital Appreciation Bonds - 4.1% | \$ 100,000                                     | \$ -                | \$ -                  | \$ 100,000                                     | \$ 53,078                             |
| Appreciation on Capital Bonds          | \$ 196,020                                     | \$ 21,780           | \$ -                  | \$ 217,800                                     | \$ 121,922                            |
| 2016 Refunding Term Bonds - 4%         |  | \$ 1,805,000        |                       | \$ 1,805,000                                   | \$ -                                  |
| 2016 Refunding Serial Bonds 2 - 4%     |  | \$ 2,490,000        |                       | \$ 2,490,000                                   | \$ 40,000                             |
|  | <u>\$ 4,906,020</u>                            | <u>\$ 4,316,780</u> | <u>\$ (4,610,000)</u> | <u>\$ 4,612,800</u>                            | <u>\$ 215,000</u>                     |

On March 27, 2008, the District issued \$5,799,999 in voted general obligation bonds for the purpose of building a new K-12 school building. The bonds were issued for a twenty eight year period with final maturity at December 1, 2035. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,255,000, \$4,445,000, and \$100,000, respectively. The serial bonds were fully paid during fiscal year 2016. The term bonds were fully advance refunded during fiscal year 2016. The bonds were retired from the Bond Retirement Fund, with the proceeds of a 10.34 mil voted property tax.

The capital appreciation bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$175,000 each year representing interest that accretes over the term of the bonds. The accreted value of the capital appreciation bonds at June 30, 2016 is \$217,800.

On February 25, 2016, the District issued \$4,295,000 in general obligation bonds to advance refund the 2008 term bonds. Of these bonds, \$2,490,000 are serial bonds with maturity dates of December 1, 2016 to December 1, 2035 and maturity amounts that range from \$40,000 to \$295,000. The remaining bonds are term bonds with maturity dates of December 1, 2025 in the amount of \$630,000, December 1, 2032 in the amount of \$560,000, and December 1, 2034 in the amount of \$615,000.

The proceeds from the refunding bonds were used to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the general obligation bonds. As a result the refunded bonds are considered to be defeased.

The District's overall legal debt margin was \$2,716,712 with an energy conservation debt margin of \$271,671 and un-voted debt margin of \$70,767 at June 30, 2016.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**12. LONG TERM LIABILITIES (CONTINUED)**

Principal and interest requirements to retire the general obligation bonds are as follows:

| Year Ended | General Obligation Term/Serial Bonds |                     |                     | General Obligation<br>Capital Appreciation Bonds |                   |                   |
|------------|--------------------------------------|---------------------|---------------------|--|-------------------|-------------------|
|            | Principal                            | Interest            | Total               | Principal  | Interest          | Total             |
| 2017       | 40,000                               | 163,825             | 203,825             | \$ 53,078  | \$ 121,922        | \$ 175,000        |
| 2018       | -                                    | 163,425             | 163,425             | 46,922   | 128,078           | 175,000           |
| 2019       | 170,000                              | 160,875             | 330,875             | -  | -                 | -                 |
| 2020       | 175,000                              | 155,700             | 330,700             | -  | -                 | -                 |
| 2021       | 185,000                              | 150,300             | 335,300             | -  | -                 | -                 |
| 2022-2026  | 1,015,000                            | 639,324             | 1,654,324           | -  | -                 | -                 |
| 2027-2031  | 1,240,000                            | 416,064             | 1,656,064           | -  | -                 | -                 |
| 2031-2036  | 1,470,000                            | 138,000             | 1,608,000           | -  | -                 | -                 |
| Total      | <u>\$ 4,295,000</u>                  | <u>\$ 1,987,513</u> | <u>\$ 6,282,513</u> | <u>\$ 100,000</u>                                | <u>\$ 250,000</u> | <u>\$ 350,000</u> |

The bonds will be retired from the Bond Retirement Fund, with the proceeds of a 10.34 mil voted property tax.

**13. JOINTLY GOVERNED ORGANIZATIONS**

**Western Ohio Computer Organization (WOCO)** - The District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$39,498 for services provided during the fiscal year 2016. Financial information can be obtained from Don Walls, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Council** – The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 150 Districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center Drive, Vandalia, Ohio 45377.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)**

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer, at 1045 Dearbaugh Avenue, Suite 1, Wapakoneta, Ohio 45895.

**14. PURCHASING POOLS**

**Sheakely Workers' Compensation Group Rating Plan** - For fiscal year 2016, the District participated in the Sheakely Workers' Compensation Group Rating Plan, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among seven local Districts and the Midwest Regional Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide health and dental coverage and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Sun Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**14. PURCHASING POOLS (CONTINUED)**

**Southwestern Ohio Educational Purchasing Council Insurance Program** – The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2016, this program was expanded to include 52 Districts with combined student enrollment of 102,095, and combined values of \$3,641,092,114. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

- Retain a portion of the predictable losses
- Transfer a portion of the catastrophic risk
- Broaden the districts insurance program coverages

The District paid \$38,455 to the group during fiscal year 2016 for Property and Casualty Insurance. Specialty Claim is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

**15. FUND BALANCES**

Fund balance is classified as non-spendable, 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 funds and all other governmental funds are presented below:

| Fund Balances               | General             | Bond<br>Retirement | Other<br>Governmental<br>Funds | Total               |
|-----------------------------|---------------------|--------------------|--------------------------------|---------------------|
| <b>Restricted for</b>       |                     |                    |                                |                     |
| Food Service Operations     | \$ -                | \$ -               | \$ 40,439                      | \$ 40,439           |
| Athletics                   | -                   | -                  | 11,915                         | 11,915              |
| Debt Service Payments       | -                   | 960,472            | -                              | 960,472             |
| Other Purposes              | -                   | -                  | 919,532                        | 919,532             |
| <i>Total Restricted</i>     | <u>-</u>            | <u>960,472</u>     | <u>971,886</u>                 | <u>1,932,358</u>    |
| <b>Committed to</b>         |                     |                    |                                |                     |
| Other Purposes              | 47,076              | -                  | -                              | 47,076              |
| <i>Total Committed</i>      | <u>47,076</u>       | <u>-</u>           | <u>-</u>                       | <u>47,076</u>       |
| <b>Assigned to</b>          |                     |                    |                                |                     |
| Other Purposes              | 76,660              | -                  | -                              | 76,660              |
| <b>Unassigned (Deficit)</b> | 5,190,533           | -                  | (2,401)                        | 5,188,132           |
| <i>Total Fund Balances</i>  | <u>\$ 5,314,269</u> | <u>\$ 960,472</u>  | <u>\$ 969,485</u>              | <u>\$ 7,244,226</u> |

**Fairlawn Local School District**  
*Statement of Net Position-Cash Basis*  
*June 30, 2015*

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets</b>  |                            |
| Equity in Pooled Cash, Cash Equivalents, and Investments | \$7,061,403                |
| <i>Total Assets</i>                                      | \$7,061,403                |
| <br><b>Net Position</b>                                  |                            |
| Restricted for:  |                            |
| Debt Service   | 852,073                    |
| Other Purposes   | 1,031,630                  |
| Unrestricted (Deficit)                                   | 5,177,700                  |
| <i>Total Net Position</i>                                | \$7,061,403                |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Activities - Cash Basis*  
For the Fiscal Year Ended June 30, 2015

|                                      | Expenses         | Program Revenues                  |  | Net (Expense) Revenue<br>and Changes in Net Position |
|--------------------------------------|------------------|-----------------------------------|--|--|
|                                      |                  | Charges for<br>Services and Sales | Operating Grants,<br>Contributions<br>and Interest | Governmental<br>Activities                           |
| <b>Governmental Activities</b>       |                  |                                   |  |  |
| Instruction:                         |                  |                                   |  |  |
| Regular                              | \$ 2,293,982     | \$ 1,562,368                      | \$ 202,672   | \$ (528,942)   |
| Special                              | 518,919          | 115,799                           | 159,839  | (243,281)  |
| Adult/Continuing                     | 1,380            |                                   |  | (1,380)  |
| Support Services:                    |                  |                                   |  |  |
| Pupil                                | 366,970          |                                   |  | (366,970)  |
| Instructional Staff                  | 237,675          |                                   |  | (237,675)  |
| Board of Education                   | 10,826           |                                   |  | (10,826)   |
| Administration                       | 566,802          |                                   |  | (566,802)  |
| Fiscal                               | 268,945          |                                   |  | (268,945)  |
| Business                             | 6,073            |                                   |  | (6,073)  |
| Operation and Maintenance of Plant   | 731,270          |                                   | 10,286   | (720,984)  |
| Pupil Transportation                 | 379,416          |                                   |  | (379,416)  |
| Operation of Non-Instructional       | 266,962          | 108,791                           | 121,833  | (36,338)   |
| Extracurricular Activities           | 199,139          | 32,847                            |  | (166,292)  |
| Capital Outlay                       | 91,359           |                                   |  | (91,359)   |
| Debt Service                         |                  |                                   |  |  |
| Principal                            | 160,000          |                                   |  | (160,000)  |
| Interest and Fiscal Charges          | 191,489          |                                   | 55,262   | (136,227)  |
| <i>Total Governmental Activities</i> | <u>6,291,207</u> | <u>1,819,805</u>                  | <u>549,892</u>                                     | <u>(3,921,510)</u>                                   |
| <b>General Revenues</b>              |                  |                                   |  |  |
| Property Taxes Levied for:           |                  |                                   |  |  |
|                                      |                  |                                   |  | 1,313,730  |
|                                      |                  |                                   |  | 398,986  |
| Income Taxes Levied for:             |                  |                                   |  |  |
|                                      |                  |                                   |  | 365,352  |
|                                      |                  |                                   |  | 2,512,970  |
|                                      |                  |                                   |  | 31,173   |
|                                      |                  |                                   |  | 64,962   |
|                                      |                  |                                   |  | <u>4,687,173</u>                                     |
|                                      |                  |                                   |  | Transfer (4,000)                                     |
|                                      |                  |                                   |  | Change in Net Position 761,663                       |
|                                      |                  |                                   |  | <i>Net Position Beginning of Year</i> 6,299,740      |
|                                      |                  |                                   |  | <i>Net Position End of Year</i> <u>\$ 7,061,403</u>  |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2015*

|   | <b>General</b>     | <b>Bond<br/>Retirement</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|--------------------|----------------------------|---|---|
| <b>Assets</b>   |                    |                            |   |   |
| Equity in Pooled Cash, Cash<br>Equivalents, and Investments | \$5,277,700        | \$852,073                  | \$931,630                               | \$7,061,403                             |
| <i>Total Assets</i>   | <u>5,277,700</u>   | <u>852,073</u>             | <u>931,630</u>                          | <u>7,061,403</u>                        |
| <b>Fund Balances</b>  |                    |                            |   |   |
| Restricted  | -                  | 852,073                    | 942,509                                 | 1,794,582                               |
| Committed   | 100,000            | -                          | -                                       | 100,000                                 |
| Assigned  | 192,750            | -                          | -                                       | 192,750                                 |
| Unassigned (deficit)  | 4,984,950          | -                          | (10,879)                                | 4,974,071                               |
| <i>Total Fund Balances (Deficits)</i>                       | <u>\$5,277,700</u> | <u>\$852,073</u>           | <u>\$931,630</u>                        | <u>\$7,061,403</u>                      |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Cash Receipts, Disbursements, and Changes  
in Fund Balances - Cash Basis - Governmental Funds  
For the Fiscal Year Ended June 30, 2015*

|  | General                   | Bond Retirement         | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                           |                         |                                |                                |
| Taxes  | \$1,661,582               | \$398,986               | 17,500                         | \$2,078,068                    |
| Intergovernmental  | 2,512,970                 | 55,262                  | 494,630                        | 3,062,862                      |
| Interest   | 31,166                    | -                       | 7                              | 31,173                         |
| Tuition and Fees   | 1,672,427                 | -                       | -                              | 1,672,427                      |
| Extracurricular Activities                                       | -                         | -                       | 38,587                         | 38,587                         |
| Charges for Services   | -                         | -                       | 108,791                        | 108,791                        |
| Miscellaneous  | 38,083                    | -                       | 26,879                         | 64,962                         |
| <i>Total Revenues</i>  | <u>5,916,228</u>          | <u>454,248</u>          | <u>686,394</u>                 | <u>7,056,870</u>               |
| <b>Expenditures</b>  |                           |                         |                                |                                |
| Current:   |                           |                         |                                |                                |
| Instruction:   |                           |                         |                                |                                |
| Regular  | 2,135,933                 | -                       | 158,049                        | 2,293,982                      |
| Special  | 408,480                   | -                       | 110,439                        | 518,919                        |
| Adult/Continuing   | 1,380                     | -                       | -                              | 1,380                          |
| Support Services:  |                           |                         |                                |                                |
| Pupil  | 292,197                   | -                       | 74,773                         | 366,970                        |
| Instructional Staff  | 237,199                   | -                       | 476                            | 237,675                        |
| Board of Education   | 10,826                    | -                       | -                              | 10,826                         |
| Administration   | 566,802                   | -                       | -                              | 566,802                        |
| Fiscal   | 259,331                   | 9,614                   | -                              | 268,945                        |
| Business   | 6,073                     | -                       | -                              | 6,073                          |
| Operation and Maintenance of Plant                               | 726,083                   | -                       | 5,187                          | 731,270                        |
| Pupil Transportation   | 379,416                   | -                       | -                              | 379,416                        |
| Operation of Non-Instructional Services                          | -                         | -                       | 266,962                        | 266,962                        |
| Extracurricular Activities                                       | 159,342                   | -                       | 39,797                         | 199,139                        |
| Capital Outlay   | 91,359                    | -                       | -                              | 91,359                         |
| Debt Service:  |                           |                         |                                |                                |
| Principal Retirement   | -                         | 160,000                 | -                              | 160,000                        |
| Interest and Fiscal Charges                                      | -                         | 191,489                 | -                              | 191,489                        |
| <i>Total Expenditures</i>  | <u>5,274,421</u>          | <u>361,103</u>          | <u>655,683</u>                 | <u>6,291,207</u>               |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i>          | <u>641,807</u>            | <u>93,145</u>           | <u>30,711</u>                  | <u>765,663</u>                 |
| <b>Other Financing Sources (Uses)</b>                            |                           |                         |                                |                                |
| Transfers In   | -                         | -                       | 40,000                         | 40,000                         |
| Transfers Out  | (44,000)                  | -                       | -                              | (44,000)                       |
| <i>Total Other Financing Sources (Uses)</i>                      | <u>(44,000)</u>           | <u>0</u>                | <u>40,000</u>                  | <u>(4,000)</u>                 |
| <i>Net Change in Fund Balances</i>                               | 597,807                   | 93,145                  | 70,711                         | 761,663                        |
| <i>Fund Balances (Deficits) Beginning<br/>of Year (Restated)</i> | <u>4,679,893</u>          | <u>758,928</u>          | <u>860,919</u>                 | <u>6,299,740</u>               |
| <i>Fund Balances (Deficits) End of Year</i>                      | <u><u>\$5,277,700</u></u> | <u><u>\$852,073</u></u> | <u><u>\$931,630</u></u>        | <u><u>\$7,061,403</u></u>      |

See accompanying notes to the basic financial statements



**Fairlawn Local School District**  
*Statement of Receipts, Disbursements, and Changes*  
*In Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

|   | Budgeted Amounts   |                    |                    | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|--------------------|--------------------|--------------------|---|
|   | Original           | Final              | Actual             |   |
| <b>Revenues</b>                                     |                    |                    |                    |   |
| Taxes   | \$1,281,087        | \$1,281,087        | \$1,661,582        | \$380,495   |
| Intergovernmental                                   | 2,512,213          | \$2,512,213        | \$2,512,970        | 757   |
| Interest  | 30,000             | \$30,000           | \$31,166           | 1,166   |
| Tuition and Fees                                    | 1,670,000          | \$1,670,000        | \$1,672,427        | 2,427   |
| Miscellaneous                                       | 35,000             | \$35,000           | \$38,083           | 3,083   |
| <i>Total Revenues</i>                               | <u>5,528,300</u>   | <u>5,528,300</u>   | <u>5,916,228</u>   | <u>387,928</u>  |
| <b>Expenditures</b>                                 |                    |                    |                    |   |
| Current:  |                    |                    |                    |   |
| Instruction:  |                    |                    |                    |   |
| Regular   | 1,953,627          | 2,217,627          | 2,141,640          | 75,987  |
| Special   | 400,000            | 440,000            | 408,480            | 31,520  |
| Adult/Continuing                                    | 1,400              | 1,400              | 1,380              | 20  |
| Support Services:                                   |                    |                    |                    |   |
| Pupils  | 305,000            | 305,000            | 303,494            | 1,506   |
| Instructional Staff                                 | 247,000            | 247,000            | 246,073            | 927   |
| Board of Education                                  | 11,000             | 11,000             | 10,826             | 174   |
| Administration                                      | 570,000            | 570,000            | 566,929            | 3,071   |
| Fiscal  | 260,000            | 260,000            | 259,571            | 429   |
| Business  | 8,000              | 8,000              | 7,323              | 677   |
| Operation and Maintenance of Plant                  | 755,000            | 755,000            | 753,752            | 1,248   |
| Pupil Transportation                                | 390,000            | 390,000            | 388,725            | 1,275   |
| Extracurricular Activities                          | 158,000            | 163,000            | 161,070            | 1,930   |
| Capital Outlay                                      | 220,000            | 220,000            | 219,141            | 859   |
| <i>Total Expenditures</i>                           | <u>5,279,027</u>   | <u>5,588,027</u>   | <u>5,468,404</u>   | <u>119,623</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>249,273</u>     | <u>(59,727)</u>    | <u>447,824</u>     | <u>507,551</u>  |
| <b>Other Financing Sources (Uses)</b>               |                    |                    |                    |   |
| Transfers Out                                       | (44,000)           | (44,000)           | (44,000)           | 0   |
| <i>Total Other Financing Sources (Uses)</i>         | <u>(44,000)</u>    | <u>(44,000)</u>    | <u>(44,000)</u>    | <u>0</u>  |
| <i>Net Change in Fund Balance</i>                   | 205,273            | (103,727)          | 403,824            | 507,551   |
| <i>Fund Balance Beginning of Year</i>               | 4,579,893          | 4,579,893          | 4,579,893          | 0   |
| Prior Year Encumbrances Appropriated                | 0                  | 0                  | 0                  | 0   |
| <i>Fund Balance End of Year</i>                     | <u>\$4,785,166</u> | <u>\$4,476,166</u> | <u>\$4,983,717</u> | <u>\$507,551</u>  |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2015*

|  | Private Purpose<br>Trust |          |
|--|--------------------------|----------|
|  | Scholarship              | Agency   |
| <b>Assets</b>  |                          |          |
| Equity in Pooled Cash, Cash Equivalents, and Investments | \$500                    | \$76,296 |
| <b>Net Position</b>                                      |                          |          |
| Held in Trust for Scholarships                           | \$500                    | \$0      |
| Held in Student Activities                               | \$0                      | \$76,296 |
| <i>Total Net Position</i>                                | \$500                    | \$76,296 |

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2015*

|                                       | Private Purpose<br>Trust |
|---------------------------------------|--------------------------|
|                                       | Scholarship              |
| <b>Additions</b>                      |                          |
| Gifts and Donation                    | \$600                    |
| <b>Deductions</b>                     |                          |
| Noninstructional Services             | 500                      |
| <i>Change in Net Position</i>         | 100                      |
| <i>Net Position Beginning of Year</i> | 400                      |
| <i>Net Position End of Year</i>       | \$500                    |

See accompanying notes to the basic financial statements

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

Fairlawn Local School District (the “District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1953. The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 500th smallest in the State of Ohio (among 612 school districts) in terms of enrollment. The Board controls the District's one instructional/support facility staffed by 37 non-certificated employees, 38 certificated full time teaching personnel and 3 administrative employees to provide services to 658 students and other community members.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Fairlawn Local School 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 organizations' 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. There are no component units of the Fairlawn Local School District.

The District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Council (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), and West Central Ohio Special Education Regional Resource Center (SERRC), jointly governed organizations. The District is also associated with the Sheakley Workers' Compensation Group Rating Plan, SOEPC Insurance Program and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 13 and 14 to the cash basis financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the end of the fiscal year.

**A. 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 functions or activities. A fund is a fiscal and accounting entity with a self balancing set of accounts. The District classifies each fund as either governmental or fiduciary.

**Governmental Funds:** The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the District's major governmental funds:

**General Fund:** The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

**Bond Retirement Fund:** The Bond Retirement Fund accounts for resources received from property taxes to pay school improvement general obligation bond principal and interest.

**Fiduciary Funds:** Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the District holds under trust agreements for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a college scholarship program.

Agency funds are custodial in nature, where the District deposits and pays cash as directed by another entity or individual. The District's agency fund accounts for student activities' cash.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation**

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

Government-wide financial statements: The statement of net position and the statement of activities display information about the District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities. The District has no business-type activities.

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

Fund Financial Statements: Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

**C. Cash, Cash Equivalents and Investments**

The District deposits and invests cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as equity in pooled cash, cash equivalents and investments on the financial statements.

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash and cash equivalents and investments. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2015 was \$31,166 including \$4,986 assigned from other District funds.

**D. Restricted Assets**

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for capital improvements. See Note 11 for additional information regarding these set-asides. There are no restricted assets at June 30, 2015.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Inventory and Prepaid Items**

On the cash basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

**F. Capital Assets**

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

**G. Compensated Absences**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**H. Long-term Obligations**

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

**I. Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education.

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

**J. Net Position**

The statements report restricted net position when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

**K. Interfund Activity**

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. There were no unpaid advances receivable or payable.

**L. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the District's control that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in fiscal year 2015.

**M. Budgetary Data**

Ohio law requires the District to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The District uses the object level within the General Fund and Fund level for all other funds.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Budgetary Data (Continued)**

The certificate of estimated resources may be amended during the year if the District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

**N. Pensions**

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

**3. COMPLIANCE**

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

**4. PROPERTY AND INCOME TAXES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**4. PROPERTY AND INCOME TAXES (Continued)**

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Shelby 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, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2015 taxes were collected are:

|  | <u>2014 Second - Half Collections</u> |                | <u>2015 First - Half Collections</u> |                |
|--|---------------------------------------|----------------|--------------------------------------|----------------|
|  | <u>Amount</u>                         | <u>Percent</u> | <u>Amount</u>                        | <u>Percent</u> |
| Agricultural/ Residential<br>and Other Real Estate | \$ 45,154,420                         | 90.00%         | \$ 65,852,800                        | 92.00%         |
| Public Utility Personal                            | <u>5,183,750</u>                      | <u>10.00</u>   | <u>5,377,030</u>                     | <u>8.00</u>    |
| Total  | <u>\$ 50,338,170</u>                  | <u>100.00%</u> | <u>\$ 71,229,830</u>                 | <u>100.00%</u> |
| Tax rate per \$1,000 of<br>assessed valuation      | \$38.17                               |                | \$31.32                              |                |

The District levies a voted income tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

**5. INTERFUND TRANSFERS**

Interfund cash transfers for the year ended June 30, 2015 were as follows:

| <b>Transfer from</b> | <b>Transfer to</b>         | <b>Amount</b> |
|----------------------|----------------------------|---------------|
| General Fund         | Food Service Fund          | \$ 40,000     |
| General Fund         | Musical Fund (Agency Fund) | 4,000         |

The transfer from the General Fund to the Food Service fund was for operating purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. The State Treasurer's investment pool (STAR Ohio, a Rule 2-a7-like pool);
7. Certain bankers' acceptances and commercial paper notes;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the purchase date unless matched to a specific District obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Undeposited Cash:** At year-end, the District had \$100 in undeposited cash on hand, included as part of *Equity in pooled cash and cash equivalents and investments*.

**Deposits:** At year-end, the carrying amount of the District's deposits was \$5,138,199 and the bank balance was \$5,152,085. Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2015, \$524,015 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the District's remaining bank balance of \$4,628,070 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments:** As of June 30, 2015 the District had two investment – FHLM note with carrying value of \$1,000,000 maturing on May 27, 2020 and FFCB bond with carrying value of \$1,000,000 maturing on May 13, 2019.

The District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within five years from the date of investments unless they are matched to a specific obligation or debt of the District. Purchasing investments that cannot be held until the maturity date is also restricted.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**7. RISK MANAGEMENT**

**A. Commercial Insurance**

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 fiscal year 2008, the District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

|   |               |
|---|---------------|
| Buildings and Contents – replacement cost | \$ 22,000,000 |
| General Liability - Per Occurrence        | 6,000,000     |
| General Liability –Aggregate              | 8,000,000     |
| Automobile Liability                      | 6,000,000     |
| Uninsured Motorists                       | 8,000,000     |

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

**B. Workers' Compensation**

For fiscal year 2015, the District participated in the Sheakely Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays \$350 enrollment fee to the Plan to cover the costs of administering the program.

**C. Employee Medical Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) consisting of seven school districts and an educational service center. The District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Sun Life for life insurance benefits.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(Continued)

**8. DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

*School Employees Retirement System (SERS)*

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

Age and service requirements for retirement are as follows:

|  | Eligible to<br>Retire on or before<br>August 1, 2017 *                          | Eligible to<br>Retire on or after<br>August 1, 2017                                  |
|--|---|--|
| Full Benefits  | Any age with 30 years of service credit   | Age 67 with 10 years of service credit; or<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits   | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>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. 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 District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$159,888 for fiscal year 2015.

***State Teachers Retirement System (STRS)***

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$298,020 for fiscal year 2015.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

|  | SERS        | STRS        | TOTAL       |
|--|-------------|-------------|-------------|
| Proportionate Share of the Net Pension Liability | \$1,590,401 | \$5,638,801 | \$7,229,202 |
| Proportion of the Net Pension Liability          | .031425%    | .02040303%  |             |

***Actuarial Assumptions - SERS***

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

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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, 2014, are presented below:

|  |  |
|--|--|
| Wage Inflation                               | 3.25 percent   |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent                                   |
| COLA or Ad Hoc COLA                          | 3 percent  |
| Investment Rate of Return                    | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method                        | Entry Age Normal   |
|  |  |

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share<br>of the net pension liability | \$2,269,030            | \$1,590,401                         | \$1,019,615            |

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions - STRS*

The total pension liability in the June 30, 2014, 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   |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

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

Actuarial assumptions used in the June 30, 2014, 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<br>Allocation | Long Term Expected<br>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                                      |
| <b>Total</b>         | <b>100.00 %</b>      |   |

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share<br>of the net pension liability | \$7,104,679            | \$5,638,801                         | \$3,151,349            |

**9. POST-EMPLOYMENT BENEFITS**

**School Employees Retirement System**

**Health Care Plan Description** - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. POST-EMPLOYMENT BENEFITS (Continued)**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$9,365, \$16,089, and \$12,811, respectively. The full amount has been contributed for all three fiscal years.

**State Teachers Retirement System of Ohio**

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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health 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 2015, 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, 2015, 2014, and 2013 were \$0, \$19,823, and \$18,626, respectively. The full amount has been contributed for all three fiscal years.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**10. CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2015 will not have a material adverse effect on the District.

**B. Litigation**

There are currently no matters in litigation with the District as defendant.

**11. SET-ASIDE CALCULATIONS**

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

The following cash basis information describes the change in the year-end set-aside amounts for capital acquisition.

|   |           |           |
|---|-----------|-----------|
| Balance June 30, 2014                   | \$        | -         |
| Current Year Set Aside Requirement      |           | 110,854   |
| Qualifying Expenditures                 |           | (110,854) |
| Set Aside Reserve Balance June 30, 2015 | <u>\$</u> | <u>-</u>  |

**12. LONG TERM LIABILITIES**

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

| <u>School Improvement</u>         | <u>Principal<br/>Outstanding<br/>6/30/2014</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Principal<br/>Outstanding<br/>6/30/2015</u> | <u>Amount<br/>Due in<br/>One Year</u> |
|-----------------------------------|--|------------------|---------------------|--|---------------------------------------|
| Serial Bonds - 4%                 | \$ 325,000                                     | \$ -             | \$ (160,000)        | \$ 165,000                                     | \$ 165,000                            |
| Term Bonds - 4 - 4.2%             | 4,445,000                                      | -                | -                   | 4,445,000                                      | -                                     |
| Capital Appreciation Bonds - 4.1% | 100,000  | -                | -                   | 100,000  | -                                     |
| Appreciation on Capital Bonds     | 174,240  | 21,780           | -                   | 196,020  | -                                     |
|                                   | <u>\$ 5,044,240</u>                            | <u>\$ 21,780</u> | <u>\$ (160,000)</u> | <u>\$ 4,906,020</u>                            | <u>\$ 165,000</u>                     |

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**12. LONG TERM LIABILITIES (CONTINUED)**

On March 27, 2008, Fairlawn Local School District issued \$5,799,999 in voted general obligation bonds for the purpose of a building a new K-12 school building. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2035. The bond issue included serial, term, and capital appreciation bonds, in the amounts of \$1,255,000, \$4,445,000, and \$100,000, respectively. The bonds will be retired from the Bond Retirement Fund, with a portion of the proceeds of a 10.34 mil voted property tax levy. Amortization of the above debt is as follows:

| General Obligation Term/Serial Bonds |                     |                     |                     | Capital Appreciation Bonds |                   |                   |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------------|-------------------|-------------------|
| Year Ended                           | Principal           | Interest            | Total               | Principal                  | Interest          | Total             |
| 2016                                 | 165,000             | 184,989             | 349,989             | \$ -                       | \$ -              | \$ -              |
| 2017                                 | -                   | 181,688             | 181,688             | 53,078                     | 121,922           | 175,000           |
| 2018                                 | -                   | 181,688             | 181,688             | 46,922                     | 128,078           | 175,000           |
| 2019                                 | 175,000             | 178,189             | 353,189             | -                          | -                 | -                 |
| 2020                                 | 180,000             | 171,089             | 351,089             | -                          | -                 | -                 |
| 2021-2025                            | 1,020,000           | 738,443             | 1,758,443           | -                          | -                 | -                 |
| 2026-2030                            | 1,240,000           | 512,598             | 1,752,598           | -                          | -                 | -                 |
| 2031-2035                            | 1,515,000           | 230,043             | 1,745,043           | -                          | -                 | -                 |
| 2036                                 | 315,000             | 6,615               | 321,615             | -                          | -                 | -                 |
| Total                                | <u>\$ 4,610,000</u> | <u>\$ 2,385,342</u> | <u>\$ 6,995,342</u> | <u>\$ 100,000</u>          | <u>\$ 250,000</u> | <u>\$ 350,000</u> |

The School District's overall legal debt margin was \$2,378,518 with an energy conservation debt margin of \$237,852 and un-voted debt margin of \$71,230 at June 30, 2015.

**Term Bonds**

The Current Interest Term Bonds maturing on December 1, 2019 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

|      |           |
|------|-----------|
| Year | Amount    |
| 2018 | \$175,000 |

The remaining principal amount of such Current Interest Bonds (\$180,000) will be paid at stated maturity on December 1, 2019.

The Current Interest Term Bonds maturing on December 1, 2021 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

|      |           |
|------|-----------|
| Year | Amount    |
| 2020 | \$190,000 |

The remaining principal amount of such Current Interest Bonds (\$195,000) will be paid at stated maturity on December 1, 2021.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**12. LONG TERM LIABILITIES (CONTINUED)**

The Current Interest Term Bonds maturing on December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Amount    |
|------|-----------|
| 2022 | \$205,000 |

The remaining principal amount of such Current Interest Bonds (\$210,000) will be paid at stated maturity on December 1, 2023

The Current Interest Term Bonds maturing on December 1, 2025 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Amount    |
|------|-----------|
| 2024 | \$220,000 |

The remaining principal amount of such Current Interest Bonds (\$230,000) will be paid at stated maturity on December 1, 2025.

The Current Interest Term Bonds maturing on December 1, 2027 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Amount    |
|------|-----------|
| 2026 | \$240,000 |

The remaining principal amount of such Current Interest Bonds (\$245,000) will be paid at stated maturity on December 1, 2027.

The Current Interest Term Bonds maturing on December 1, 2031 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Amount    |
|------|-----------|
| 2028 | \$255,000 |
| 2029 | \$270,000 |
| 2030 | \$280,000 |

The remaining principal amount of such Current Interest Bonds (\$290,000) will be paid at stated maturity on December 1, 2031.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**12. LONG TERM LIABILITIES (CONTINUED)**

The Current Interest Term Bonds maturing on December 1, 2035 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Amount    |
|------|-----------|
| 2032 | \$300,000 |
| 2033 | \$315,000 |
| 2034 | \$330,000 |

The remaining principal amount of such Current Interest Bonds (\$315,000) will be paid at stated maturity on December 1, 2035.

The Current Interest Term Bonds maturing on or after December 1, 2017 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any date on or after June 1, 2017, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The capital appreciation bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$175,000 each year representing interest that accretes over the term of the bonds. The accreted value of the capital appreciation bonds at June 30, 2015 is \$196,020.

**13. JOINTLY GOVERNED ORGANIZATIONS**

**Western Ohio Computer Organization (WOCO)** - The District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$49,971 for services provided during the fiscal year 2015. Financial information can be obtained from Don Walls, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Council** - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 150 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)**

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, 303 Corporate Center Drive, Vandalia, Ohio 45377.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Technology Association, Frank DePalma, who serves as Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at 1045 Dearbaugh Avenue, Suite 1, Wapakoneta, Ohio 45895.

**14. PURCHASING POOLS**

**Sheakely Workers' Compensation Group Rating Plan** - For fiscal year 2015, the District participated in the Sheakely Workers' Compensation Group Rating Plan, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**14. PURCHASING POOLS (CONTINUED)**

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide health and dental coverage and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Sun Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**Southwestern Ohio Educational Purchasing Council Insurance Program** – The School District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2015, this program was expanded to include 52 school districts with combined student enrollment of 102,095, and combined values of \$3,641,092,114. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

- Retain a portion of the predictable losses
- Transfer a portion of the catastrophic risk
- Broaden the districts insurance program coverages

The District paid \$38,455 to the group during fiscal year 2015 for Property and Casualty Insurance. Specialty Claim is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**15. 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances               | General             | Bond<br>Retirement | Other<br>Governmental<br>Funds | Total               |
|-----------------------------|---------------------|--------------------|--------------------------------|---------------------|
| <b>Restricted for</b>       |                     |                    |                                |                     |
| Food Service Operations     | \$ -                | \$ -               | \$ 40,923                      | \$ 40,923           |
| Athletics                   | -                   | -                  | 8,057                          | 8,057               |
| Debt Service Payments       | -                   | 852,073            | -                              | 852,073             |
| Other Purposes              | -                   | -                  | 893,529                        | 893,529             |
| <i>Total Restricted</i>     | <u>-</u>            | <u>852,073</u>     | <u>942,509</u>                 | <u>1,794,582</u>    |
| <b>Committed to</b>         |                     |                    |                                |                     |
| Other Purposes              | 100,000             | -                  | -                              | 100,000             |
| <i>Total Committed</i>      | <u>100,000</u>      | <u>-</u>           | <u>-</u>                       | <u>100,000</u>      |
| <b>Assigned to</b>          |                     |                    |                                |                     |
| Other Purposes              | 192,750             | -                  | -                              | 192,750             |
| <b>Unassigned (Deficit)</b> | <u>4,984,950</u>    | <u>-</u>           | <u>(10,879)</u>                | <u>4,974,071</u>    |
| <i>Total Fund Balances</i>  | <u>\$ 5,277,700</u> | <u>\$ 852,073</u>  | <u>\$ 931,630</u>              | <u>\$ 7,061,403</u> |

**16. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2015, the District has implemented Governmental Accounting Standard Board (GASB) statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27" and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." GASB Statement No. 68 improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB statement No. 71, amends GASB Statement No. 68 and is effective with the provisions of GASB Statement No. 68. The implementation of these statements is described further in Note 8.

**17. RESTATEMENT OF FUND BALANCES**

An adjustment was necessary to restate opening fund balances for the general fund and other governmental funds. The adjustment to fund balances increased general fund balance from \$4,579,893 to \$4,679,893 and decreased other governmental funds fund balance from \$960,919 to \$860,919 at June 30, 2014.



# Dave Yost • Auditor of State

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

Fairlawn Local School District  
Shelby County  
18800 Johnston Road  
Sidney, Ohio 45365

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles and the District also restated its beginning fund balances for the year-ended June 30, 2015.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-002 and 2016-003 to be material weaknesses.

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 23, 2017

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2016 AND 2015**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2016-001**

**NONCOMPLIANCE**

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

**Ohio Admin. Code § 117-2-03(B)** requires, in part, the District to prepare its annual financial report in accordance with generally accepted accounting principles.

However, the District prepared its annual financial statements for fiscal year 2016 and 2015 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District should prepare its annual financial reports in accordance with generally accepted accounting principles to provide any user with more meaningful and useful financial statements.

**Officials' Response:** We did not receive a response from Officials to this finding.

**FINDING NUMBER 2016-002**

**MATERIAL WEAKNESS – DEBT REFUNDING**

The District's financial statements were prepared using an "other comprehensive basis of accounting". The District failed to record on its accounting system and financial statements all activity related to a debt refunding that occurred during fiscal year 2016. The financial statements were adjusted to account for the debt refunding as follows in the bond retirement fund and entity-wide statement of activities:

- Bond issuance costs in the amount of \$107,092
- Refunding bonds issued in the amount of \$4,295,000
- Premium on refunding bonds in the amount of \$497,118
- Payment to refunded bond escrow agent in the amount of \$4,685,026

Failure to record debt refunding activity in the records and financial statements could lead to misleading financial information and misstated financial statements.

Procedures should be established and implemented to verify that all accounting transactions, including debt refunding, are posted to the records and financial statements.

**Officials' Response:** We did not receive a response from Officials to this finding.

**FINDING NUMBER 2016-003**

**MATERIAL WEAKNESS – GASB 54 REPORTING**

Governmental Accounting Standards Board (GASB) Statement 54, paragraph 30 (GASB Codification 1300.105) states that a special revenue fund requires that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Paragraph 31 continues that the restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other revenues (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specific purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Additionally, Auditor of State Bulletin 2011-004 includes a GASB 54 fund balance classification analysis that shows that a Termination Benefits Fund (Fund 035) should be reported within the General Fund.

The Termination Benefits Fund did not have a foundation revenue during fiscal year 2015 or fiscal year 2016. There was no activity in the fund during fiscal year 2015 as the beginning and ending balance in the fund was \$100,000. This \$100,000 was transferred into the fund in fiscal year 2009 with a transfer from the General Fund and has remained unspent in the fund until fiscal year 2016. Severance was paid from this fund in fiscal year 2016 totaling \$52,925, resulting in an ending fund balance of \$47,075. All fiscal year 2015 and 2016 activity related to this fund was reported in the other governmental funds; however, such activity should have been reported within the General Fund. For fiscal year 2015, the beginning and ending balance of \$100,000 was adjusted to the General Fund. For fiscal year 2016, the beginning balance (\$100,000), the expenditures (\$52,925), and ending balance (\$47,075) were adjusted to the General Fund.

Failure to properly report activity in accordance with GASB 54 could result in unreliable financial statements and material financial statement errors.

The District should implement procedures to review the requirements of GASB 54 and Auditor of State Bulletin 2011-004 in order to properly report activity and balances at year-end.

**Officials' Response:** We did not receive a response from Officials to this finding.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016**

| <b>Finding Number</b> | <b>Finding Summary</b>  | <b>Status</b> | <b>Additional Information</b>   |
|-----------------------|---|---------------|---|
| 2014-001              | <b>Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B)</b> – Failure to file GAAP financial statements | Not Corrected | Repeated as Finding Number 2016-001 (District has elected not to prepare GAAP basis financial statements due to cost concerns). |

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# Dave Yost • Auditor of State

FAIRLAWN LOCAL SCHOOL DISTRICT

SHELBY 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  
MAY 4, 2017