

FAIRFIELD CITY SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2018

With Independent Auditors' Report



CLARK SCHAEFER HACKETT
CPAs & ADVISORS

OHIO AUDITOR OF STATE KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Fairfield City School District, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 29, 2019

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TABLE OF CONTENTS

Independent Auditors' Report.....	1 - 3
Management's Discussion and Analysis.....	4 - 15
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	18 - 19
Statement of Revenues, Expenditures and Changes in Fund	
Balances – Governmental Funds.....	20 - 21
Statement of Net Position – Proprietary Fund.....	22
Statement of Revenues, Expenses and Changes in Fund	
Net Position - Proprietary Fund.....	23
Statement of Cash Flows – Proprietary Fund	24
Statement of Fiduciary Net Position – Fiduciary Funds.....	25
Statement of Changes in Fiduciary Net Position – Fiduciary Fund.....	26
Notes to Basic Financial Statements.....	27 - 66
Required Supplementary Information:	
Schedules of the District's Proportionate Share of the Net Pension Liability.....	68 - 69
Schedules of District Contributions for Net Pension Liability.....	70 - 71
Schedules of the District's Proportionate Share of the Net OPEB Liability.....	72 - 73
Schedules of District Contributions for OPEB.....	74 - 75
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - (Non-GAAP Budgetary Basis) - General Fund.....	76
Notes to the Required Supplementary Information.....	77 - 79
Schedule of Expenditures of Federal Awards	80
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	81 - 82
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance	83 - 84
Schedule of Findings and Questioned Costs.....	85
Schedule of Prior Year Audit Findings	86

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 19 to the financial statements, during the year ended June 30, 2018, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fairfield City School District's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2018

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of Fairfield City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position of governmental activities increased \$53,385,168 which represents an 84% increase from 2017.
- General revenues accounted for \$90,707,175 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$19,967,160 or 18% of total revenues of \$110,674,335.
- The District had \$57,289,167 in expenses related to governmental activities; \$19,967,160 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues of \$90,707,175 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2018?" The Government-wide Financial Statements answers this question. These statements include *all assets, liabilities, and deferred outflows/inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

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

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

Fund Financial Statements

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

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

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

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

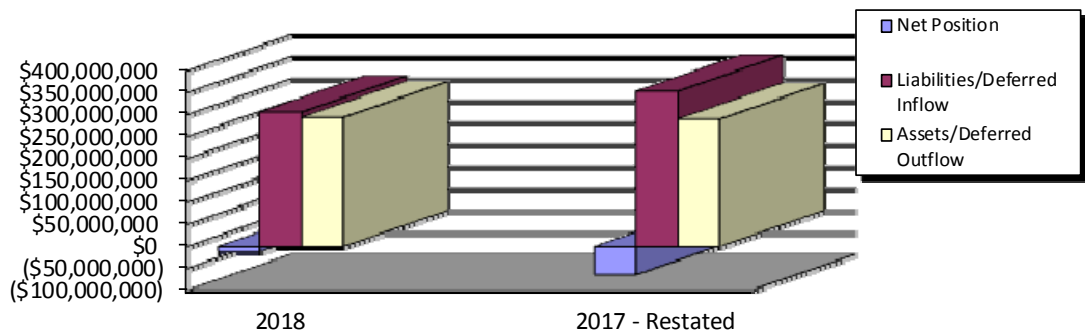
The District as a Whole

As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for fiscal year 2018 compared to fiscal year 2017:

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2018	2017-Restated
Assets:		
Current and Other Assets	\$139,848,108	\$155,137,327
Capital Assets	119,904,809	106,539,089
Total Assets	259,752,917	261,676,416
Deferred Outflows of Resources:		
Pension	33,094,632	28,173,835
OPEB	1,169,221	207,595
Total Deferred Outflows of Resources	34,263,853	28,381,430
Liabilities:		
Other Liabilities	13,198,069	22,004,350
Long-Term Liabilities	224,946,110	273,012,652
Total Liabilities	238,144,179	295,017,002
Deferred Inflows of Resources:		
Property Taxes	57,540,922	56,721,986
Other Taxes	2,088,527	1,724,318
Pension	3,848,632	315,563
OPEB	2,730,365	0
Total Deferred Inflows of Resources	66,208,446	58,761,867
Net Position:		
Net Investment in Capital Assets	36,539,909	29,088,177
Restricted	10,540,203	13,771,927
Unrestricted	(57,415,967)	(106,581,127)
Total Net Position	(\$10,335,855)	(\$63,721,023)



Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The net pension liability (NPL) is the largest single liability reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District's proportionate share of each plan's collective:

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

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

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

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

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

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$34,567,525) to (\$63,721,023).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$10,335,855.

At year-end, capital assets represented 46% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2018, were \$36,539,909. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$10,540,203 represents resources that are subject to external restriction on how they must be used.

Net position of governmental activities increased \$53,385,168 from 2017 to 2018. Total assets for the District decreased from 2017 to 2018 mainly due to the decrease in the amount of intergovernmental receivable the District will receive (due to completion of the OFCC project). Total liabilities decreased from 2017 to 2018 due to a decrease in net pension liability.

Table 2 shows the changes in net position for fiscal years 2018 and 2017.

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Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues		
Charges for Services and Sales	\$7,241,772	\$6,534,143
Operating Grants and Contributions	12,725,388	12,117,343
General Revenues		
Property Taxes	52,975,688	49,982,193
Grants and Entitlements not Restricted to Specific Programs	34,155,770	33,218,484
Revenue in Lieu of Taxes	1,922,179	1,792,664
Other	1,653,538	1,136,307
Total Revenues	<u>110,674,335</u>	<u>104,781,134</u>
Program Expenses		
Instruction	33,098,836	61,987,223
Support Services:		
Pupil and Instructional Staff	4,316,183	6,888,232
School Administrative, General		
Administration, Fiscal and Business	5,660,920	11,108,797
Operations and Maintenance	1,771,651	6,862,131
Pupil Transportation	4,864,748	7,627,099
Central	68,971	142,276
Operation of Non-Instructional Services	3,196,704	5,297,270
Extracurricular Activities	1,121,487	2,136,820
Interest and Fiscal Charges	3,189,667	3,215,423
Total Program Expenses	<u>57,289,167</u>	<u>105,265,271</u>
Change in Net Position	53,385,168	(484,137)
Net Position - Beginning of Year, Restated	<u>(63,721,023)</u>	N/A
Net Position - End of Year	<u><u>(\$10,335,855)</u></u>	<u><u>(\$63,721,023)</u></u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$207,595 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$3,561,580. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Total 2018 operating expenses under GASB 75	\$57,289,167
Negative OPEB expense under GASB 75	3,561,580
2018 contractually required contribution	286,612
Adjusted 2018 operating expenses	<u>61,137,359</u>
Total 2017 operating expenses under GASB 45	<u>105,265,271</u>
Change in operating expenses not related to OPEB	<u><u>(\$44,127,912)</u></u>

Of the total governmental activities revenues of \$110,674,335, \$19,967,160 is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the students. Of those general revenues, \$52,975,688 (58%) comes from property tax levies and \$34,155,770 (38%) is from state funding. This District’s operations are reliant upon its property tax levy and the state’s foundation program.

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

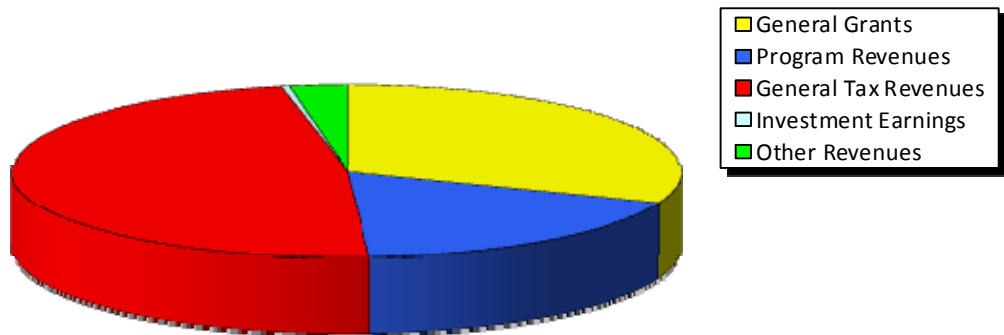
Thus Ohio districts do not collect additional property tax revenue on the increased value of homes that is due to appreciation and must regularly return to the voters to maintain a constant level of service. Property taxes made up 48% of revenue for governmental activities for the District in fiscal year 2018.

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Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Governmental Activities
Revenue Sources

	2018	Percentage
General Grants	\$34,155,770	30.90%
Program Revenues	19,967,160	18.00%
General Tax Revenues	52,975,688	47.90%
Investment Earnings	497,934	0.40%
Other Revenues	3,077,783	2.80%
Total Revenue Sources	<u>\$110,674,335</u>	<u>100.00%</u>



Instruction comprises 58% of governmental program expenses. Support services expenses were 29% of governmental program expenses. All other program expenses including interest and fiscal charges were 13%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Overall revenues increased due to an increase in charges for services and sales and property taxes revenue in 2018 when compared to 2017. Total expenses decreased in 2018 due to changes related to net pension liability and other post employment benefits liability.

Governmental Activities

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

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Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$33,098,836	\$61,987,223	(\$20,880,380)	(\$50,396,921)
Support Services:				
Pupil and Instructional Staff	4,316,183	6,888,232	(3,557,405)	(6,313,625)
School Administrative, General				
Administration, Fiscal and Business	5,660,920	11,108,797	(5,417,275)	(10,808,368)
Operations and Maintenance	1,771,651	6,862,131	(1,709,088)	(6,806,919)
Pupil Transportation	4,864,748	7,627,099	(4,560,182)	(7,379,979)
Central	68,971	142,276	(45,862)	(142,276)
Operation of Non-Instructional Services	3,196,704	5,297,270	2,640,178	(106,662)
Extracurricular Activities	1,121,487	2,136,820	(602,326)	(1,443,612)
Interest and Fiscal Charges	3,189,667	3,215,423	(3,189,667)	(3,215,423)
Total Expenses	<u>\$57,289,167</u>	<u>\$105,265,271</u>	<u>(\$37,322,007)</u>	<u>(\$86,613,785)</u>

The District's Funds

The District has one major governmental fund: the General Fund. Assets of the general fund comprised \$116,704,203 (82%) of the total \$142,876,762 governmental funds' assets.

General Fund: Fund balance at June 30, 2018 was \$51,656,156, an increase in fund balance of \$1,434,939 from 2017. The increase in fund balance was mainly due to an increase in property and other taxes and intergovernmental revenues.

General Fund Budgeting Highlights

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

During the course of fiscal year 2018 the District amended its general fund budget at times. The District's budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, the final budgeted revenue was \$93,408,979 and the original budgeted revenue was \$91,070,578. The difference was \$2,338,401, mostly due to underestimates in taxes and intergovernmental revenue. The final budgeted expenditures were \$92,583,691 and the original budgeted expenditures were \$87,781,594. The difference was \$4,802,097, mostly due to changes in instruction, school administration, and pupil transportation expenditures.

The District's ending unobligated actual fund balance for the General fund was \$51,295,642.

Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Capital Assets and Long-Term Obligations

Capital Assets

At the fiscal year end, the District had \$119,904,809 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal year 2018 balances compared to fiscal year 2017:

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

	Governmental Activities	
	2018	2017
Land	\$3,803,351	\$3,803,351
Construction in Progress	77,246,047	69,415,762
Buildings and Improvements	35,200,832	30,224,145
Equipment	3,654,579	3,095,831
Total Net Capital Assets	<u>\$119,904,809</u>	<u>\$106,539,089</u>

Overall, capital assets increased due to the ongoing OFCC project.

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

Long-Term Obligations

At June 30, 2018, the District had \$87,453,578 in bonds and capital leases outstanding, \$4,627,749 due within one year. Table 5 summarizes bonds and capital leases outstanding.

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Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2018	2017
General Obligation Bonds:		
2014 School Improvement	\$61,055,000	\$61,155,000
Premium on 2014 School Improvement	6,893,949	7,149,281
2012 Refunding of 1994 School Improvement Bonds	9,750,000	12,685,000
Premium on 2012 Refunding	541,568	722,090
2011 HB 264 Bond	1,602,575	1,800,180
2011 Cooling Project	830,425	932,820
Capital Leases		
2013 Bus Lease	1,353,253	1,605,700
HVAC Lease	5,426,808	6,270,794
Total Bonds and Capital Lease	<u>\$87,453,578</u>	<u>\$92,320,865</u>

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

For the Future

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

Amended House Bill 49 (HB49) addresses the state foundation funding for FY18 and FY19. There are numerous components and variables that make up the calculation for foundation funding. As a result, there are numerous reasons why an individual school district will experience changes in foundation funding across fiscal years or why one district receives more state funds than another.

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

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

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

Contacting the District's Financial Management

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

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Fairfield City School District, Ohio
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$75,125,448
Restricted Cash and Investments	704,287
Receivables (Net):	
Taxes	58,965,078
Accounts	177,074
Interest	220,728
Intergovernmental	4,648,281
Inventory	7,212
Nondepreciable Capital Assets	81,049,398
Depreciable Capital Assets, Net	<u>38,855,411</u>
 Total Assets	 <u>259,752,917</u>
Deferred Outflows of Resources:	
Pension	33,094,632
OPEB	<u>1,169,221</u>
 Total Deferred Outflows of Resources	 <u>34,263,853</u>
Liabilities:	
Accounts Payable	1,875,195
Accrued Wages and Benefits	10,018,806
Contracts Payable	198,347
Retainage Payable	500,444
Accrued Interest Payable	538,687
Claims Payable	66,590
Long-Term Liabilities:	
Due Within One Year	5,181,412
Due In More Than One Year	
Net Pension Liability	104,738,004
Net OPEB Liability	23,744,162
Other Amounts	<u>91,282,532</u>
 Total Liabilities	 <u>238,144,179</u>
Deferred Inflows of Resources:	
Property Taxes	57,540,922
Other Taxes	2,088,527
Pension	3,848,632
OPEB	<u>2,730,365</u>
 Total Deferred Inflows of Resources	 <u>66,208,446</u>
Net Position:	
Net Investment in Capital Assets	36,539,909
Restricted for:	
Debt Service	5,202,961
Capital Projects	705,395
Capital Maintenance	2,399,969
Auxiliary Services	58,431
Title VI-B	771,080
Title I	146,913
Federal Grants	472,755
Food Service	701,098
Other Purposes	81,601
Unrestricted	<u>(57,415,967)</u>
 Total Net Position	 <u><u>(\$10,335,855)</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services and Sales	Operating Grants and Contributions	and Changes in Net Position Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$20,748,089	\$3,360,930	\$407,674	(\$16,979,485)
Special	7,689,624	948,872	6,691,380	(49,372)
Vocational	0	0	33,039	33,039
Other	4,661,123	56,352	720,209	(3,884,562)
Support Services:				
Pupil	2,019,671	0	86,542	(1,933,129)
Instructional Staff	2,296,512	0	672,236	(1,624,276)
General Administration	62,479	0	40,720	(21,759)
School Administration	4,565,596	0	185,854	(4,379,742)
Fiscal	924,993	0	17,071	(907,922)
Business	107,852	0	0	(107,852)
Operations and Maintenance	1,771,651	62,563	0	(1,709,088)
Pupil Transportation	4,864,748	0	304,566	(4,560,182)
Central	68,971	0	23,109	(45,862)
Operation of Non-Instructional Services	3,196,704	2,293,894	3,542,988	2,640,178
Extracurricular Activities	1,121,487	519,161	0	(602,326)
Interest and Fiscal Charges	3,189,667	0	0	(3,189,667)
Total Governmental Activities	57,289,167	7,241,772	12,725,388	(37,322,007)

General Revenues:

Property Taxes Levied for:

General Purposes	47,558,180
Special Revenue Purposes	683,404
Debt Service Purposes	4,734,104
Grants and Entitlements, Not Restricted	34,155,770
Revenue in Lieu of Taxes	1,922,179
Unrestricted Contributions	66,924
Investment Earnings	497,934
Other Revenues	1,088,680

Total General Revenues 90,707,175

Change in Net Position 53,385,168

Net Position - Beginning of Year, Restated (63,721,023)

Net Position - End of Year (\$10,335,855)

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$57,973,789	\$16,782,569	\$74,756,358
Restricted Cash and Investments	203,843	500,444	704,287
Receivables (Net):			
Taxes	52,658,928	6,306,150	58,965,078
Accounts	165,333	11,741	177,074
Interest	216,039	4,689	220,728
Intergovernmental	2,088,527	2,559,754	4,648,281
Interfund	3,397,744	0	3,397,744
Inventory	0	7,212	7,212
Total Assets	116,704,203	26,172,559	142,876,762
Liabilities:			
Accounts Payable	1,278,265	596,930	1,875,195
Accrued Wages and Benefits	9,234,177	784,629	10,018,806
Compensated Absences	333,391	11,388	344,779
Contracts Payable	0	198,347	198,347
Retainage Payable	0	500,444	500,444
Interfund Payable	0	3,397,744	3,397,744
Total Liabilities	10,845,833	5,489,482	16,335,315
Deferred Inflows of Resources:			
Property Taxes	52,058,298	6,233,681	58,291,979
Grants	0	2,545,698	2,545,698
Other Taxes	2,088,527	0	2,088,527
Investment Earnings	55,389	1,316	56,705
Total Deferred Inflows of Resources	54,202,214	8,780,695	62,982,909
Fund Balances:			
Restricted	0	13,950,428	13,950,428
Assigned	5,501,823	0	5,501,823
Unassigned	46,154,333	(2,048,046)	44,106,287
Total Fund Balances	51,656,156	11,902,382	63,558,538
Total Liabilities, Deferred Inflows and Fund Balances	\$116,704,203	\$26,172,559	\$142,876,762

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2018

Total Governmental Fund Balance		\$63,558,538
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		119,904,809
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	751,057	
Interest	56,705	
Intergovernmental	<u>2,545,698</u>	
		3,353,460
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		302,500
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(538,687)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences	(8,568,610)	
Workers Compensation Retro Claim Loss	<u>(96,977)</u>	
		(8,665,587)
Deferred outflows and inflows or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	33,094,632	
Deferred inflows of resources related to pensions	(3,848,632)	
Deferred outflows of resources related to OPEB	1,169,221	
Deferred inflows of resources related to OPEB	<u>(2,730,365)</u>	
		27,684,856
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(104,738,004)	
Net OPEB Liability	(23,744,162)	
Other Amounts	<u>(87,453,578)</u>	
		(215,935,744)
Net Position of Governmental Activities		<u>(\$10,335,855)</u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Property and Other Taxes	\$47,228,134	\$5,399,353	\$52,627,487
Tuition and Fees	4,365,507	0	4,365,507
Investment Earnings	377,454	121,196	498,650
Intergovernmental	38,822,659	9,250,012	48,072,671
Extracurricular Activities	282,175	237,615	519,790
Charges for Services	616,317	1,677,595	2,293,912
Revenue in Lieu of Taxes	1,922,179	0	1,922,179
Other Revenues	916,094	289,922	1,206,016
Total Revenues	94,530,519	16,975,693	111,506,212
Expenditures:			
Current:			
Instruction:			
Regular	39,642,708	462,805	40,105,513
Special	12,242,168	2,799,337	15,041,505
Other	4,698,371	0	4,698,371
Support Services:			
Pupil	3,996,647	89,756	4,086,403
Instructional Staff	2,007,567	538,550	2,546,117
General Administration	14,946	51,109	66,055
School Administration	9,348,244	203,233	9,551,477
Fiscal	1,299,645	55,024	1,354,669
Business	364,020	0	364,020
Operations and Maintenance	6,391,770	0	6,391,770
Pupil Transportation	6,288,480	23,156	6,311,636
Central	141,522	8,400	149,922
Operation of Non-Instructional Services	265,684	4,745,413	5,011,097
Extracurricular Activities	1,517,376	670,407	2,187,783
Capital Outlay	3,307,134	9,264,751	12,571,885
Debt Service:			
Principal Retirement	1,096,433	3,335,000	4,431,433
Interest and Fiscal Charges	158,672	3,484,934	3,643,606
Total Expenditures	92,781,387	25,731,875	118,513,262
Excess of Revenues Over (Under) Expenditures	1,749,132	(8,756,182)	(7,007,050)
Other Financing Sources (Uses):			
Proceeds from Sale of Capital Assets	12,150	0	12,150
Transfers In	0	326,343	326,343
Transfers (Out)	(326,343)	0	(326,343)
Total Other Financing Sources (Uses)	(314,193)	326,343	12,150
Net Change in Fund Balance	1,434,939	(8,429,839)	(6,994,900)
Fund Balance - Beginning of Year	50,221,217	20,332,221	70,553,438
Fund Balance - End of Year	\$51,656,156	\$11,902,382	\$63,558,538

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 for the Fiscal Year Ended June 30, 2018

Net Change in Fund Balance - Total Governmental Funds (\$6,994,900)

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

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

Capital assets used in governmental activities	16,970,335	
Depreciation Expense	<u>(3,604,615)</u>	
		13,365,720

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

District pension contributions	7,587,827	
Pension Expense	32,034,253	
District OPEB contributions	286,612	
OPEB Expense	<u>3,561,580</u>	
		43,470,272

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

Delinquent Property Taxes	348,201	
Interest	(717)	
Intergovernmental	<u>(1,191,511)</u>	
		(844,027)

Repayment of bond and lease principal is an expenditure
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net position. 4,431,433

In the statement of activities interest expense is accrued when incurred;
 whereas, in governmental funds an interest expenditure is reported
 when due. 18,085

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

Compensated Absences	(445,141)	
Amortization of Bond Premium	<u>435,854</u>	
		(9,287)

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

Change in Net Position - Internal Service Funds		<u>(52,128)</u>
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Change in Net Position of Governmental Activities		<u>\$53,385,168</u>
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See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2018

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$369,090</u>
Total Assets	<u>369,090</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>66,590</u>
Total Liabilities	<u>66,590</u>
Net Position:	
Unrestricted	<u>302,500</u>
Total Net Position	<u>\$302,500</u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Other Revenues	<u>\$0</u>
Total Operating Revenues	<u>0</u>
Operating Expenses:	
Claims Expense	<u>52,128</u>
Total Operating Expenses	<u>52,128</u>
Change in Net Position	(52,128)
Net Position - Beginning of Year	<u>354,628</u>
Net Position - End of Year	<u><u>\$302,500</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Payments for Claims	<u>(\$63,683)</u>
Net Cash Used by Operating Activities	<u>(63,683)</u>
Net Decrease in Cash and Cash Equivalents	(63,683)
Cash and Cash Equivalents - Beginning of Year	<u>432,773</u>
Cash and Cash Equivalents - End of Year	<u><u>369,090</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	(52,128)
Changes in Assets & Liabilities:	
Decrease in Claims Payables	<u>(11,555)</u>
Net Cash Used by Operating Activities	<u><u>(\$63,683)</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Investments	\$4,247	\$409,102
Receivables (Net):		
Accounts	<u> 0</u>	<u> 870</u>
Total Assets	<u> 4,257</u>	<u> \$409,972</u>
Liabilities:		
Accounts Payable	0	79,305
Other Liabilities	<u> 0</u>	<u> 330,667</u>
Total Liabilities	<u> 0</u>	<u> \$409,972</u>
Net Position:		
Held in Trust	<u> 4,257</u>	
Total Net Position	<u> \$4,257</u>	

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2018

	Private Purpose Trust
Additions:	
Investment Earnings	\$8
Other	<u>150</u>
Total Additions	<u>158</u>
Deductions:	
Other	<u>8,092</u>
Total Deductions	<u>8,092</u>
Change in Net Position	(7,934)
Net Position - Beginning of Year	<u>12,191</u>
Net Position - End of Year	<u><u>\$4,257</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Description of the District

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

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by approximately 454 non-certificated personnel and approximately 644 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District is the 18th largest in the State of Ohio (among 613 Districts) in terms of enrollment (ADM) and the 3rd largest in Butler County. It currently operates 6 elementary schools (serving grades Preschool - 5), 2 middle school (serving grades 6 - 8), 1 freshman school (serving grade 9), alternative education school (serving grades 9-12), and 1 comprehensive high school (serving grades 10 - 12). The District services an area of 38 square miles.

Reporting Entity

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

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

Note 2 - Summary of Significant Accounting Policies

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

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

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

Proprietary Funds

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has two agency funds. The agency fund (student activities) is used to account for assets and liabilities generated by student managed activities. The fund accounts for sales and other revenue generating activities by student activity programs, which have students involved in the management of the program. The agency fund (unclaimed monies) is used to account for funds that belong to others as a result of outstanding checks over one year old. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources related to pension and OPEB are reported on the governmental-wide statement of net position. The deferred outflows of resources related to pension and OPEB are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. For the District, deferred inflows of resources include property taxes, grants and other taxes (which include tax incremental financing 'TIF'), investment earnings, OPEB, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance year 2019 operations. These amounts have been

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Other taxes (TIF) have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and investment earnings have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 9 and 10.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2018 credited to the General Fund amounted to \$377,454, and \$121,196 credited to Other Governmental Funds.

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

Inventory

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

Inventory consists of donated food.

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Capital Assets

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

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

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

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

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for unpaid compensated absences are recognized when due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not Eligible	Not Eligible	10-25 days for each Service year depending on length of service.
Maximum Accumulation	Not Applicable	Not Applicable	25 days
Vested	Not Applicable	Not Applicable	As Earned

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Termination Entitlement	Not Applicable	Not Applicable	Paid upon Termination
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	330 days according to bargaining agreements	360 days	330 days according to bargaining agreements
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

Pensions/Other Postemployment Benefits (OPEB)

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

Net Position

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$10,540,203 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

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

Fund Balance

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

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

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

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

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

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

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

Estimates

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Restricted Assets

Restricted assets in the general fund represent equity in pooled cash and investments set aside to establish a budget stabilization reserve, while restricted assets in the capital projects fund is for retainage payable.

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

Deposits

Custodial credit risk 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, 2018, \$21,749,381 of the District's bank balance of \$22,249,381 was exposed to custodial credit risk because it was uninsured and collateralized.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2018, the District had the following investments:

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>	<u>Weighted Average Maturity (Years)</u>
Federal Home Loan Bank	\$11,905,777	Level 2	1.60
Federal National Mortgage Association	20,916,798	Level 2	1.85
Federal Home Loan Mortgage	11,471,085	Level 2	0.92
Commercial Paper	7,249,252	Level 2	0.27
Negotiable CD's	1,206,811	Level 2	2.32
Money Market Funds	1,575,465	N/A	0.00
	<u>\$54,325,188</u>		
Portfolio Weighted Average Maturity			1.34

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 of the fair value hierarchy are valued using pricing sources, as provided by the investment managers. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2018.

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

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District's investments in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. The District's investments in Commercial Paper was rated A-1+ by Standard and Poor's ratings and P-1 by Moody's Investors Service. Money Market Funds and Negotiable CD's are not rated.

Concentration of Credit Risk – The District's investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 3% of the District's investments in Money Market Funds, 22% in Federal Home Loan Bank, 39% in Federal National Mortgage Association, 21% in Federal Home Loan Mortgage, 2% in Negotiable CDs, and 13% in Commercial Paper.

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

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility property located in

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. The District receives property taxes from Butler County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available for advance can vary based on the date the tax bills are sent.

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

Accrued property taxes receivable represent delinquent taxes outstanding, real property, and public utility taxes which became measurable at June 30, 2018. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2018 on the fund statements. The entire amount of delinquent taxes receivable is recognized as a revenue on the government-wide financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations.

The assessed value, by property classification, upon which taxes collected in 2018 were based as follows:

	<u>Amount</u>
Public Utility	\$56,655,540
Real Estate	<u>1,404,490,760</u>
Total	<u><u>\$1,461,146,300</u></u>

Note 5 – Receivables

Receivables at June 30, 2018, consisted of taxes, accounts (rent and student fees), intergovernmental, interest and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

General Fund:	Amounts
Intergovernmental	<u>\$2,088,527</u>
Other Governmental Funds:	
School Security	4,598
Title VI B Pre-School	1,366,940
Title III	118,108
Title I	587,184
Miscellaneous Federal	325,306
Public School Preschool	13,058
Pre-School Disabilities	12,012
Title II-A	<u>132,548</u>
Total	<u><u>\$4,648,281</u></u>

Note 6 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$3,803,351	\$0	\$0	\$3,803,351
Construction in Progress	69,415,762	7,830,285	0	77,246,047
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	72,887,579	7,045,335	2,600	79,930,314
Equipment	<u>22,537,700</u>	<u>2,094,715</u>	<u>841,089</u>	<u>23,791,326</u>
Totals at Historical Cost	<u>168,644,392</u>	<u>16,970,335</u>	<u>843,689</u>	<u>184,771,038</u>
Less Accumulated Depreciation:				
Buildings and Improvements	42,663,434	2,068,648	2,600	44,729,482
Equipment	<u>19,441,869</u>	<u>1,535,967</u>	<u>841,089</u>	<u>20,136,747</u>
Total Accumulated Depreciation	<u>62,105,303</u>	<u>3,604,615</u>	<u>843,689</u>	<u>64,866,229</u>
Governmental Activities Capital Assets, Net	<u><u>\$106,539,089</u></u>	<u><u>\$13,365,720</u></u>	<u><u>\$0</u></u>	<u><u>\$119,904,809</u></u>

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,670,593
Special	13,947
Support Services:	
Pupil	31,310
Instructional Staff	60,510
School Administration	67,065
Fiscal	663
Business	2,365
Operations and Maintenance	661,680
Pupil Transportation	958,971
Operation of Non-Instructional Services	85,800
Extracurricular Activities	51,711
Total Depreciation Expense	<u>\$3,604,615</u>

Note 7 - Long-Term Liabilities

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

	Interest	Restated			Ending	Due In
	Rate	Beginning	Issued	Retired	Balance	One Year
		Balance				
Governmental Activities:						
Bonds:						
2014 School Improvement						
Principal	2.0-5.0%	\$61,155,000	\$0	\$100,000	\$61,055,000	\$100,000
Premium		7,149,281	0	255,332	6,893,949	0
2012 Refunding of 1994 School						
Improvement Bonds	1.5-5.0%	12,685,000	0	2,935,000	9,750,000	3,110,000
Premium on 2012 Refunding		722,090	0	180,522	541,568	0
2011 HB 264 Bond	5.3800%	1,800,180	0	197,605	1,602,575	197,605
2011 Cooling Project	0.9000%	932,820	0	102,395	830,425	102,395
Subtotal Bonds		84,444,371	0	3,770,854	80,673,517	3,510,000
Capital Leases		7,876,494	0	1,096,433	6,780,061	1,117,749
Compensated Absences		8,261,361	994,169	342,141	8,913,389	533,201
Retro Claim Loss Premium		96,977	0	0	96,977	20,462
Subtotal Bonds and Other Amounts		100,679,203	994,169	5,209,428	96,463,944	5,181,412
Net Pension Liability:						
STRS		115,220,150	0	32,920,220	82,299,930	0
SERS		27,752,207	0	5,314,133	22,438,074	0
Subtotal Net Pension Liability		142,972,357	0	38,234,353	104,738,004	0
Net OPEB Liability:						
STRS		18,408,870	0	4,891,671	13,517,199	0
SERS		10,952,223	0	725,260	10,226,963	0
Subtotal Net OPEB Liability		29,361,093	0	5,616,931	23,744,162	0
Total Governmental Activities		\$273,012,653	\$994,169	\$49,060,712	\$224,946,110	\$5,181,412

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

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

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2019	\$3,510,000	\$3,345,625	\$6,855,625
2020	3,662,000	3,215,582	6,877,582
2021	3,782,000	3,065,184	6,847,184
2022	1,563,000	2,949,984	4,512,984
2023	1,595,000	2,903,329	4,498,329
2024-2028	8,461,000	13,428,283	21,889,283
2029-2033	9,990,000	11,472,500	21,462,500
2034-2038	13,670,000	8,533,500	22,203,500
2039-2043	18,230,000	4,579,250	22,809,250
2044-2045	8,775,000	444,125	9,219,125
Total	<u>\$73,238,000</u>	<u>\$53,937,362</u>	<u>\$127,175,362</u>

Note 8 - Capital Leases

The District in prior years has entered into a capital lease for buses and a HVAC system.

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

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Fiscal Year Ending June 30	Payments
2019	\$1,255,105
2020	1,255,105
2021	1,255,104
2022	1,255,105
2023	1,255,103
2024	965,244
Total Minimum Lease Payments	\$7,240,766
Amount Representing Interest	(460,705)
Present Value of Minimum Lease Payments	<u>\$6,780,061</u>

Capital assets acquired under capital leases are as follows:

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

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.20% for the first thirty years of service and 2.50% for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

Post-Retirement Increases – Before January 1, 2018; on each anniversary of the initial date of retirement, the allowances of all retirees and survivors are increased by 3% of the base benefit. On or after January 1, 2018; on each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0% nor greater than 2.5%. COLA’s shall be suspended for calendar years 2018, 2019, and 2020.

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The contractually required contribution to SERS was \$1,805,207 for fiscal year 2018. Of this amount \$653,990 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 10 years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

The contractually required contribution to STRS was \$5,782,620 for fiscal year 2018. Of this amount \$1,039,404 is reported as accrued wages and benefits.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$22,438,074	\$82,299,930	\$104,738,004
Proportion of the Net Pension Liability:			
Current Measurement Date	0.37554650%	0.34644996%	
Prior Measurement Date	<u>0.37917630%</u>	<u>0.34421803%</u>	
Change in Proportionate Share	-0.00362980%	0.00223193%	
Pension Expense	(\$913,559)	(\$31,120,694)	(\$32,034,253)

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$965,657	\$3,178,037	\$4,143,694
Changes of assumptions	1,160,290	17,999,899	19,160,189
Changes in employer proportionate share of net pension liability	142,721	2,060,201	2,202,922
Contributions subsequent to the measurement date	1,805,207	5,782,620	7,587,827
Total Deferred Outflows of Resources	\$4,073,875	\$29,020,757	\$33,094,632
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$663,305	\$663,305
Net difference between projected and actual earnings on pension plan investments	106,508	2,715,994	2,822,502
Changes in employer proportionate share of net pension liability	362,825	0	362,825
Total Deferred Inflows of Resources	\$469,333	\$3,379,299	\$3,848,632

\$7,587,827 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$820,385	\$4,417,302	\$5,237,687
2020	1,209,557	8,111,990	9,321,547
2021	292,472	5,760,834	6,053,306
2022	(523,079)	1,568,712	1,045,633
Total	\$1,799,335	\$19,858,838	\$21,658,173

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in the 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 an arithmetic weighted average 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:

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Discount Rate

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

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.50%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$31,138,215	\$22,438,074	\$15,149,931

Changes in Benefit Terms

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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

The following table represents the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$117,974,150	\$82,299,930	\$52,249,748

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 10 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (OPEB) Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at year-end is included in accrued liabilities on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the surcharge obligation was \$219,753.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$286,612 for fiscal year 2018. Of this amount \$219,753 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$10,226,963	\$13,517,199	\$23,744,162
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.38107170%	0.34644996%	
Prior Measurement Date	0.38423866%	0.34421803%	
Change in Proportionate Share	<u>-0.00316696%</u>	<u>0.00223193%</u>	
OPEB Expense	\$546,090	(\$4,107,670)	(\$3,561,580)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$780,297	\$780,297
Changes in employer proportionate share of net OPEB liability	0	102,312	102,312
Contributions subsequent to the measurement date	<u>286,612</u>	<u>0</u>	<u>286,612</u>
Total Deferred Outflows of Resources	<u>\$286,612</u>	<u>\$882,609</u>	<u>\$1,169,221</u>
Deferred Inflows of Resources			
Changes of assumptions	\$970,486	\$1,088,853	\$2,059,339
Net difference between projected and actual earnings on OPEB plan investments	27,007	577,757	604,764
Changes in employer proportionate share of net OPEB liability	<u>66,262</u>	<u>0</u>	<u>66,262</u>
Total Deferred Inflows of Resources	<u>\$1,063,755</u>	<u>\$1,666,610</u>	<u>\$2,730,365</u>

\$286,612 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2019	(\$382,385)	(\$178,813)	(\$561,198)
2020	(382,385)	(178,813)	(561,198)
2021	(292,233)	(178,813)	(471,046)
2022	(6,752)	(178,813)	(185,565)
2023	0	(34,375)	(34,375)
Thereafter	0	(34,374)	(34,374)
Total	<u>(\$1,063,755)</u>	<u>(\$784,001)</u>	<u>(\$1,847,756)</u>

Actuarial Assumptions - SERS

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

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

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

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Discount Rate

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

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease 2.63%	Current Discount Rate 3.63%	1% Increase 4.63%
Proportionate share of the net OPEB liability	\$12,350,360	\$10,226,963	\$8,544,691

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	\$8,298,414	\$10,226,963	\$12,779,431

Changes in Assumptions – SERS

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

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Actuarial Assumptions - STRS

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

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% ultimate

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

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

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

Since the prior measurement date, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

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

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

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

Discount Rate

The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
Proportionate share of the net OPEB liability	\$18,146,623	\$13,517,199	\$9,858,441
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$9,391,171	\$13,517,199	\$18,947,535

Changes in Assumptions – STRS

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

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 11 - Contingent Liabilities

Foundation Funding

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

Grants

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2018.

Litigation

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

Note 12 - Risk Management

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

General liability is protected by Liberty Mutual with \$1,000,000 each occurrence, \$2,000,000 aggregate limit. Vehicles are covered by Liberty Mutual with a \$500 deductible. Public officials' bond insurance is provided by Marsh & McLennan Agency. The Treasurer is covered by a bond in the amount of \$100,000. The District has elected to provide employee medical and dental benefits through Butler Health Plan. The employees share the cost of the monthly premium for the coverage with the Board. There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

Beginning in January 2011, the District began to self-insure its workers' compensation costs. Expenses for claims are recorded on the current basis based on an actuarially determined charge per employee.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The District accounts for the activities of this program in an internal service fund in accordance with GASB Statement No. 10. A summary of the changes in self-insurance workers' compensation claims liability is as follows:

	<u>2018</u>	<u>2017</u>
Claims Liability at Beginning of Year	\$78,145	\$63,432
Claims Incurred	52,128	135,286
Claims Paid	<u>(63,683)</u>	<u>(120,573)</u>
Claims Liability at End of Year	<u>\$66,590</u>	<u>\$78,145</u>

Note 13 - Jointly Governed Organizations

Southwestern Ohio Computer Association

Southwestern Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is a council of governments that is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the participating 34 school districts.

Butler Technology and Career Development Schools

The Butler Technology and Career Development Schools is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from the participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Butler Technology and Career Development School is not part of the District and its operations are not included as part of the reporting entity.

Note 14 – Accountability

The following funds had a deficit in fund balance:

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Other Governmental Funds:	Deficit
School Security	\$2,601
Title VI B Pre-School	440,963
Pre-School Disabilities	12,009
Miscellaneous Federal	17,342
Extracurricular Student Activities	1,141,285
Public School Preschool	1,920
Title I	346,058
Title III	71,120
Title II-A	14,748

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

Note 15 - Statutory Reserves

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

For fiscal year ended June 30, 2018, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	Capital Acquisition	Budget Stabilization
Set Aside Reserve Balance as of June 30, 2017	\$0	\$203,843
Current Year Set Aside Requirements	1,723,599	0
Qualified Disbursements	(2,606,628)	0
Current Year Offsets	0 *	0
Set Aside Reserve Balance as of June 30, 2018	(\$883,029)	\$203,843
Restricted Cash as of June 30, 2018	\$0	\$203,843

* - is a carryforward from prior years that can be used as the eligible amount to be used as a current year offsets. \$59,237 was used as the eligible offset for FY09, \$0 for FY10, \$131,981 for FY11, \$345,672 for FY12, \$381,875 for FY13, \$0 for FY 14, \$0 for FY 15, \$0 for FY 16, \$0 for FY 17, and \$0 for FY18. \$29,445,431 will be the offset carryforward for FY18.

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the Act. As of June 30, 2018, the Board had not acted on the Senate Bill requirements to eliminate the reserve balance.

Note 16 - Interfund Transactions

Interfund transactions at June 30, 2018, consisted of the following interfund receivables and interfund payables and transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$3,397,744	\$0	\$0	\$326,343
Other Governmental Funds	0	3,397,744	326,343	0
Total All Funds	<u>\$3,397,744</u>	<u>\$3,397,744</u>	<u>\$326,343</u>	<u>\$326,343</u>

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

Note 17 – Fund Balances

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Fund Balances	General	Other Governmental Funds	Total
Restricted for:			
SchoolNet OneNet	\$0	\$9,225	\$9,225
Spring Recognition	0	71,377	71,377
Auxiliary Services	0	143,615	143,615
Classroom Facilities Maintenance	0	2,392,399	2,392,399
Food Service	0	880,768	880,768
Debt Service	0	5,657,850	5,657,850
Classroom Facilities	0	3,760,745	3,760,745
Building	0	1,033,328	1,033,328
Permanent Improvement	0	1,121	1,121
Total Restricted	0	13,950,428	13,950,428
Assigned to:			
Public School Support	329,771	0	329,771
Encumbrances	5,172,052	0	5,172,052
Total Assigned	5,501,823	0	5,501,823
Unassigned (Deficit)	46,154,333	(2,048,046)	44,106,287
Total Fund Balance	\$51,656,156	\$11,902,382	\$63,558,538

Note 18 – Tax Abatements entered Into By Other Governments

Other governments entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area (“CRA”) program with the taxing districts of the District. The CRA program is a directive incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, the City of Fairfield (City) has entered into such an agreement. Under this agreement the District’s property taxes were reduced by approximately \$627,548. The District received \$413,890 from the City in association with the forgone property tax revenue.

Note 19 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the District has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pensions Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, and GASB No. 86, Certain Debt Extinguishment Issues, and GASB Statement No. 85, Omnibus 2017, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

GASB Statement No. 81 sets out to improve accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The implementation of GASB Statement No. 82 was included in the footnote disclosures for 2018.

GASB Statement No. 86 sets out to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net position June 30, 2017	(\$34,567,525)
Adjustments:	
Net OPEB Liability	(29,361,093)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>207,595</u>
Restated Net Position June 30, 2017	<u><u>(\$63,721,023)</u></u>

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

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**REQUIRED
SUPPLEMENTARY
INFORMATION**

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

	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.34644996%	0.34421803%	0.33766406%	0.33398361%	0.33398361%
District's Proportionate Share of the Net Pension Liability	\$82,299,930	\$115,220,150	\$93,320,470	\$81,236,372	\$96,507,633
District's Covered Payroll	\$37,985,743	\$36,362,914	\$34,408,800	\$36,748,815	\$37,901,538
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.66%	316.86%	271.21%	221.06%	254.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.37554650%	0.37917630%	0.38661310%	0.37768000%	0.37768000%
District's Proportionate Share of the Net Pension Liability	\$22,438,074	\$27,752,207	\$22,060,518	\$19,114,170	\$22,466,151
District's Covered Payroll	\$12,359,779	\$11,775,807	\$12,363,202	\$11,085,491	\$13,815,087
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	181.54%	235.67%	178.44%	172.43%	162.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$5,782,620	\$5,318,004	\$5,090,808	\$4,817,232	\$4,777,346	\$4,927,200	\$5,362,812	\$5,687,592	\$5,424,396	\$5,328,288
Contributions in Relation to the Contractually Required Contribution	(5,782,620)	(5,318,004)	(5,090,808)	(4,817,232)	(4,777,346)	(4,927,200)	(5,362,812)	(5,687,592)	(5,424,396)	(5,328,288)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered Payroll	\$41,304,429	\$37,985,743	\$36,362,914	\$34,408,800	\$36,748,815	\$37,901,538	\$41,252,400	\$43,750,708	\$41,726,123	\$40,986,831
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$1,805,207	\$1,730,369	\$1,648,613	\$1,629,470	\$1,536,449	\$1,912,008	\$2,045,640	\$2,302,656	\$2,123,316	\$1,934,328
Contributions in Relation to the Contractually Required Contribution	(1,805,207)	(1,730,369)	(1,648,613)	(1,629,470)	(1,536,449)	(1,912,008)	(2,045,640)	(2,302,656)	(2,123,316)	(1,934,328)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered Payroll	\$13,371,904	\$12,359,779	\$11,775,807	\$12,363,202	\$11,085,491	\$13,815,087	\$15,209,219	\$18,318,663	\$15,681,802	\$19,657,805
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information.

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

	2018	2017
District's Proportion of the Net OPEB Liability	0.34644996%	0.34421803%
District's Proportionate Share of the Net OPEB Liability	\$13,517,199	\$18,408,870
District's Covered Payroll	\$37,985,743	\$36,362,914
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.58%	50.63%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

Fairfield City School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

	2018	2017
District's Proportion of the Net OPEB Liability	0.38107170%	0.38423866%
District's Proportionate Share of the Net OPEB Liability	\$10,226,963	\$10,952,223
District's Covered Payroll	\$12,359,779	\$11,775,807
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	82.74%	93.01%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

Fairfield City School District
 Required Supplementary Information
 Schedule of District Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	0	0	0
Contribution Deficiency (Excess)	\$0	\$0	\$0
District Covered Payroll	\$41,304,429	\$37,985,743	\$36,362,914
Contributions to OPEB as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

Fairfield City School District
 Required Supplementary Information
 Schedule of District Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution to OPEB (2)	\$286,612	\$207,595	\$194,355
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>(286,612)</u>	<u>(207,595)</u>	<u>(194,355)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered Payroll	\$13,371,904	\$12,359,779	\$11,775,807
Contributions to OPEB as a Percentage of Covered Payroll	2.14%	1.68%	1.65%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) - Includes Surcharge.

See accompanying notes to the required supplementary information.

Fairfield City School District, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2018

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$46,140,792	\$47,325,540	\$47,325,541	\$1
Tuition and Fees	3,689,694	3,784,434	3,784,434	0
Investment Earnings	788,705	808,956	808,956	0
Intergovernmental	37,850,772	38,822,658	38,822,659	1
Extracurricular Activities	190,784	195,683	195,683	0
Other Revenues	2,409,831	2,471,708	2,471,708	0
Total Revenues	91,070,578	93,408,979	93,408,981	2
Expenditures:				
Current:				
Instruction:				
Regular	37,341,029	39,383,772	39,383,772	0
Special	11,564,835	12,197,490	12,197,490	0
Other	4,514,437	4,761,400	4,761,400	0
Support Services:				
Pupil	3,478,390	3,668,675	3,668,675	0
Instructional Staff	2,039,350	2,150,913	2,150,913	0
General Administration	14,171	14,946	14,946	0
School Administration	9,244,081	9,749,779	9,749,779	0
Fiscal	1,224,997	1,292,010	1,292,010	0
Business	357,983	377,567	377,567	0
Operations and Maintenance	7,471,268	7,879,984	7,879,984	0
Pupil Transportation	7,209,946	7,604,366	7,604,366	0
Central	140,727	148,426	148,426	0
Extracurricular Activities	1,460,392	1,540,283	1,540,283	0
Capital Outlay	1,719,988	1,814,080	1,814,080	0
Total Expenditures	87,781,594	92,583,691	92,583,691	0
Excess of Revenues Over (Under) Expenditures	3,288,984	825,288	825,290	2
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	11,846	12,150	12,150	0
Advances In	5,047,986	5,177,602	5,177,602	0
Advances (Out)	(3,476,627)	(3,666,816)	(3,666,816)	0
Transfers In	318,224	326,395	326,395	0
Transfers (Out)	(609,233)	(642,561)	(642,561)	0
Total Other Financing Sources (Uses)	1,292,196	1,206,770	1,206,770	0
Net Change in Fund Balance	4,581,180	2,032,058	2,032,060	2
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	49,263,582	49,263,582	49,263,582	0
Fund Balance End of Year	\$53,844,762	\$51,295,640	\$51,295,642	\$2

See accompanying notes to the required supplementary information.

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2018

Note 1 - Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. During the course of fiscal 2018, the District amended its budget at several times.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2018.

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

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

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

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2018

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$1,434,939
Revenue Accruals	(1,121,538)
Expenditure Accruals	6,457,361
Transfers In	326,395
Transfers Out	(316,218)
Advances In	5,177,602
Advances Out	(3,666,816)
Encumbrances	(6,259,668)
Funds Budgeted Elsewhere	<u>3</u>
Budget Basis	<u><u>\$2,032,060</u></u>

Note 2 - SERS Change in Assumptions-Net Pension Liability

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Note 3 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 4 - SERS Change in Assumptions-Net OPEB Liability

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

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2018

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Note 5 - STRS Change in Assumptions-Net OPEB Liability

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

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

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Fairfield City School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2018	10.555	\$ 252,422	252,422
<i>Cash Assistance:</i>				
School Breakfast Program	2018	10.553	338,168	338,168
National School Lunch Program	2018	10.555	<u>1,605,151</u>	<u>1,605,151</u>
<i>Cash Assistance Subtotal</i>			<u>1,943,319</u>	<u>1,943,319</u>
Nutrition Cluster Total			<u>2,195,741</u>	<u>2,195,741</u>
Total U.S. Department of Agriculture			<u>2,195,741</u>	<u>2,195,741</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies (Title I Neglected)	S010A160035	84.010	22,063	21,831
Title I Grants to Local Educational Agencies (Title I Neglected)	S010A180035	84.010	7,388	7,388
Title I Grants to Local Educational Agencies	S010A160035	84.010	265,771	206,948
Title I Grants to Local Educational Agencies	S010A180035	84.010	<u>1,229,591</u>	<u>1,421,306</u>
			<u>1,524,813</u>	<u>1,657,473</u>
Special Education Cluster:				
Special Education - Grants to States	H027A160111	84.027	357,909	260,336
Special Education - Grants to States	H027A180111	84.027	1,644,846	1,782,342
Special Education - Preschool Grants	H173A160119	84.173	5,992	4,482
Special Education - Preschool Grants	H173A180119	84.173	<u>38,675</u>	<u>41,170</u>
			<u>2,047,422</u>	<u>2,088,330</u>
English Language Acquisition State Grants	S365A160035	84.365	68,863	10,759
English Language Acquisition State Grants	S365A180035	84.365	56,540	118,810
English Language Acquisition State Grants (Immigrant)	S365A160035	84.365	525	525
English Language Acquisition State Grants (Immigrant)	S365A180035	84.365	<u>12,384</u>	<u>12,541</u>
			<u>138,312</u>	<u>142,635</u>
Supporting Effective Instruction State Grant	S367A160034	84.367	8,110	2,332
Supporting Effective Instruction State Grant	S367A180034	84.367	<u>189,564</u>	<u>202,115</u>
			<u>197,674</u>	<u>204,447</u>
Student Support and Academic Enrichment	S424A180036	84.424	<u>25,088</u>	<u>25,088</u>
Total U.S. Department of Education			<u>3,933,309</u>	<u>4,117,973</u>
<u>U.S. Department of Health and Human Services:</u>				
Drug Free Communities Support Program (2017)	SP020927	93.276	43,497	39,852
Drug Free Communities Support Program (2018)	SP020927	93.276	<u>79,606</u>	<u>91,246</u>
Total U.S. Department of Health and Human Services			<u>123,103</u>	<u>131,098</u>
Total Federal Awards			<u>\$ 6,252,153</u>	<u>6,444,812</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Fairfield City School District (the "School District") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

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

NOTE D - NUTRITION CLUSTER

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District ("School District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 20, 2018, wherein we noted the School District adopted Governmental Accounting Standards Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2018

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

To the Board of Education
Fairfield City School District:

Report on Compliance for Each Major Federal Program

We have audited Fairfield City School District's ("School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2018. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 20, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	none

Identification of major programs:

Nutrition Cluster
 CFDA 10.553 – School Breakfast Program
 CFDA 10.555 – National School Lunch Program

Special Education Cluster
 CFDA 84.027 – Special Education - Grants to States
 CFDA 84.173 – Special Education - Preschool Grants

Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Fairfield City School District
Schedule of Prior Audit Findings
Year Ended June 30, 2018

2017-001 Financial Reporting

Misstatements in the financial statements were identified that were not initially identified by the School Districts internal control over financial reporting

Status: *Corrected*



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OHIO AUDITOR OF STATE KEITH FABER



FAIRFIELD CITY SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 12, 2019**