



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY  
JUNE 30, 2020 AND 2019**

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FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY  
JUNE 30, 2020 AND 2019

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# OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, Ohio (the District), as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2020 and 2019, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Emphasis of Matter**

As discussed in Note 17 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

December 15, 2020

**Fairlawn Local School District**  
*Statement of Net Position-Cash Basis*  
*June 30, 2020*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$8,621,021</u>
<i>Total Assets</i>	<u><u>\$8,621,021</u></u>
<b>Net Position</b>	
Restricted for:	
Debt Service	979,674
Other Purposes	1,179,748
Unrestricted	<u>6,461,599</u>
<i>Total Net Position</i>	<u><u>\$8,621,021</u></u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Activities - Cash Basis*  
For the Fiscal Year Ended June 30, 2020

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 2,828,834	\$ 1,421,174	\$ 95,171	\$ (1,312,489)
Special	790,864	235,272	178,339	(377,253)
Adult/Continuing	156			(156)
Support Services:				
Pupil	406,854		172,604	(234,250)
Instructional Staff	275,122		4,691	(270,431)
Board of Education	8,930			(8,930)
Administration	667,375		34,450	(632,925)
Fiscal	282,262			(282,262)
Business	4,759			(4,759)
Operation and Maintenance of Plant	743,081		9,913	(733,168)
Pupil Transportation	569,481			(569,481)
Operation of Non-Instructional	212,844	93,621	79,679	(39,544)
Extracurricular Activities	223,649	44,576		(179,073)
Capital Outlay	281,033			(281,033)
Debt Service				
Principal	175,000			(175,000)
Interest and Fiscal Charges	155,700		40,817	(114,883)
<i>Total Governmental Activities</i>	<u>7,625,944</u>	<u>1,794,643</u>	<u>615,664</u>	<u>(5,215,637)</u>
		<b>General Revenues</b>		
		Property Taxes Levied for:		
		General Purposes		1,415,231
		Debt Service		311,121
		Income Taxes Levied for:		
		General Purposes		424,794
		Grants and Entitlements not Restricted to Specific Programs		2,838,584
		Investment Earnings		123,056
		Miscellaneous		127,036
		<i>Total General Revenues</i>		<u>5,239,822</u>
		Change in Net Position		24,185
		<i>Net Position Beginning of Year</i>		<u>8,596,836</u>
		<i>Net Position End of Year</i>		<u>\$ 8,621,021</u>

See accompanying notes to the basic financial statements



**Fairlawn Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
**Governmental Funds**  
*June 30, 2020*

	<b>General</b>	<b>Bond Retirement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Equity in Pooled Cash, Cash Equivalents, and Investments	\$6,470,523	\$979,674	\$1,170,824	\$8,621,021
<i>Total Assets</i>	<u>6,470,523</u>	<u>979,674</u>	<u>1,170,824</u>	<u>8,621,021</u>
<b>Fund Balances</b>				
Restricted		979,674	1,172,139	2,151,813
Committed	47,076			47,076
Assigned	2,600,388		7,609	2,607,997
Unassigned (deficit)	3,823,059		(8,924)	3,814,135
<i>Total Fund Balances</i>	<u>6,470,523</u>	<u>979,674</u>	<u>1,170,824</u>	<u>8,621,021</u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Cash Receipts, Disbursements, and Changes  
in Fund Balances - Cash Basis - Governmental Funds  
For the Fiscal Year Ended June 30, 2020*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$1,822,525	\$311,121	17,500	\$2,151,146
Intergovernmental	2,838,584	40,817	574,847	3,454,248
Interest	122,393		663	123,056
Tuition and Fees	1,653,938			1,653,938
Extracurricular Activities			44,576	44,576
Charges for Services			96,129	96,129
Miscellaneous	103,672		23,364	127,036
<i>Total Revenues</i>	<u>6,541,112</u>	<u>351,938</u>	<u>757,079</u>	<u>7,650,129</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,722,421		106,413	2,828,834
Special	613,327		177,537	790,864
Adult/Continuing	156			156
Support Services:				
Pupil	302,636		104,218	406,854
Instructional Staff	268,610		6,512	275,122
Board of Education	8,930			8,930
Administration	633,112		34,263	667,375
Fiscal	273,920	8,342		282,262
Business	4,759			4,759
Operation and Maintenance of Plant	743,081			743,081
Pupil Transportation	569,481			569,481
Operation of Non-Instructional Services			212,844	212,844
Extracurricular Activities	174,266		49,383	223,649
Capital Outlay	281,033			281,033
Debt Service:				
Principal Retirement		175,000		175,000
Interest and Fiscal Charges		155,700		155,700
<i>Total Expenditures</i>	<u>6,595,732</u>	<u>339,042</u>	<u>691,170</u>	<u>7,625,944</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(54,620)</u>	<u>12,896</u>	<u>65,909</u>	<u>24,185</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In			55,000	55,000
Transfer Out	(55,000)			(55,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(55,000)</u>	<u>0</u>	<u>55,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(109,620)	12,896	120,909	24,185
<i>Fund Balances Beginning of Year</i>	<u>6,580,143</u>	<u>966,778</u>	<u>1,049,915</u>	<u>8,596,836</u>
<i>Fund Balances End of Year</i>	<u>\$6,470,523</u>	<u>\$979,674</u>	<u>\$1,170,824</u>	<u>\$8,621,021</u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Receipts, Disbursements, and Changes  
In Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2020*

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$1,820,000	\$1,820,000	\$1,822,525	\$2,525
Intergovernmental	2,830,000	\$2,830,000	\$2,838,584	8,584
Interest	120,000	\$120,000	\$122,393	2,393
Tuition and Fees	1,650,000	\$1,650,000	\$1,653,938	3,938
Miscellaneous	90,473	\$90,473	\$103,672	13,199
<i>Total Revenues</i>	<u>6,510,473</u>	<u>6,510,473</u>	<u>6,541,112</u>	<u>30,639</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,859,370	2,859,370	2,791,208	68,162
Special	640,000	670,000	635,327	34,673
Adult/Continuing	200	200	156	44
Support Services:				
Pupils	305,000	305,000	302,636	2,364
Instructional Staff	295,000	295,000	290,610	4,390
Board of Education	10,000	10,000	8,930	1,070
Administration	640,000	640,000	637,530	2,470
Fiscal	290,000	290,000	283,029	6,971
Business	7,000	7,000	6,259	741
Operation and Maintenance of Plant	800,000	840,000	792,317	47,683
Pupil Transportation	571,000	571,000	570,116	884
Extracurricular Activities	180,000	180,000	174,266	5,734
Capital Outlay	300,000	344,250	298,033	46,217
<i>Total Expenditures</i>	<u>6,897,570</u>	<u>7,011,820</u>	<u>6,790,417</u>	<u>221,403</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(387,097)</u>	<u>(501,347)</u>	<u>(249,305)</u>	<u>252,042</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(55,000)	(55,000)	(55,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(55,000)</u>	<u>(55,000)</u>	<u>(55,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(442,097)	(556,347)	(304,305)	252,042
<i>Fund Balance Beginning of Year</i>	6,349,933	6,349,933	6,349,933	0
Prior Year Encumbrances Appropriated	294,287	294,287	294,287	0
<i>Fund Balance End of Year</i>	<u>\$6,202,123</u>	<u>\$6,087,873</u>	<u>\$6,339,915</u>	<u>\$252,042</u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2020*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$132,981</u>
<b>Net Position</b>	
Held in Student Activities	<u>\$132,981</u>
<i>Total Net Position</i>	<u><u>\$132,981</u></u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2020*

	Private Purpose Trust
	Scholarship
<b>Additions</b>	
Gifts and Donation	\$1,500
<b>Deductions</b>	
Noninstructional Services	1,500
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	0
<i>Net Position End of Year</i>	\$0

See accompanying notes to the basic financial statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

The District was established in 1953. The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 515th smallest in the State of Ohio (among 608 Districts) in terms of enrollment. This Board controls the District's one instructional/support facility staffed by 37 non-certificated employees, 35 certificated full time teaching personnel and 3 administrative employees to provide services to 590 students and other community members.

**Reporting Entity**

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. Fund Accounting**

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

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

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

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

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

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

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

**B. Basis of Presentation**

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

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

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

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

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

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

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as equity in pooled cash and cash equivalents and investments. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2020 was \$122,393 including \$30,598 assigned from other District funds.

**D. Restricted Assets**

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for capital improvements. See Note 11 for additional information regarding these set-asides. There are no restricted assets at June 30, 2020.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

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

**E. Inventory and Prepaid Items**

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

**F. Capital Assets**

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

**G. Compensated Absences**

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

**H. Long-term Obligations**

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

**I. Fund Balance**

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

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

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

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

**J. Net Position**

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

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

**K. Interfund Activity**

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

The statements report interfund loans as advances when made or repaid. During fiscal year 2020, the District did not advance funds to any other fund.

**L. Budgetary Data**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

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

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

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

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

For purposes of measuring the net pension/OPEB liability and net OPEB asset, 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.

**3. COMPLIANCE**

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

**4. PROPERTY AND INCOME TAXES**

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

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

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

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2020 represent the collection of calendar year 2019 taxes. Real property taxes received in calendar year 2020 were levied after April 1, 2019, on the assessed values as of January 1, 2019, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2020 represent the collection of calendar year 2019 taxes. Public utility real and personal property taxes received in calendar year 2020 became a lien on December 31, 2019, were levied after April 1, 2019, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Shelby County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2020, are available to finance fiscal year 2020 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2020 taxes were collected are:

	2019 second - Half Collections		2020 first- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$ 58,992,490	90.77%	59,385,940	90.26%
Public Utility Personal	<u>5,999,540</u>	<u>9.23</u>	<u>6,407,370</u>	<u>9.74</u>
Total	<u><u>\$ 64,992,030</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 65,793,310</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$30.73		\$32.62	

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

**5. INTERFUND TRANSFERS**

Interfund cash transfers for the year ended June 30, 2020 were as follows:

<b>Transfer from</b> General Fund	<b>Transfer to</b> Food Service Fund	<b>Amount</b> \$ 55,000
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The transfer from the General Fund to the Food Service fund was for operating purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

Ohio law restricts deposits and investments to the following:

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

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

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

**Deposits:** At year-end, the carrying amount of the District's deposits was \$4,255,027 and the bank balance was \$4,378,712. 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, 2020, \$750,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the District's remaining bank balance of \$3,628,712 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Ohio law requires that deposits either be insured or protected by (1) 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 percent of the deposits being secured, or (2) 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 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**Investments:** As of June 30, 2020 the District had various investments - Federal Home Loan Mortgage Corporation Note with carrying value of \$999,000 maturing on November 27, 2023 with a Moody's rating of AAA. The District also owns Goldman Sachs Bank, Sallie Mae, Morgan Stanley Bank, Washington Mount Lake Bank, Compass Bank, Citibank, Ally Bank, Morgan Stanley Private Bank, Capital One National Bank, Capital One Bank, Texas Cap Bank, Crescom Bank, and Cadence Bank Certificates of Deposit each for \$250,000 and each are covered entirely by FDIC. The District also owns a Certificate of Deposit from TowneBank for \$249,875, which is covered entirely by FDIC. Total District investments are \$4,498,875.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**7. RISK MANAGEMENT**

**A. Commercial Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

Buildings and Contents – replacement cost	\$ 24,500,000
General Liability - Per Occurrence	6,000,000
General Liability –Aggregate	8,000,000
Automobile Liability	6,000,000
Uninsured Motorists	8,000,000

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

**B. Workers' Compensation**

For fiscal year 2020, the District participated in the Sheakley Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

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

**C. Employee Medical Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) consisting of six local districts. The District is enrolled in an insurance plan, which is administered by Jefferson Health plan and Self Funded Plan, Inc. The District pays monthly premium to Sun Life for life insurance benefits.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

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

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The 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 District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

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



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

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 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The District’s contractually required contribution to SERS was \$201,233 for fiscal year 2020.

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

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

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. . In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five year of service credit and age 65, or 35 years of service credit and at least age 60. Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate is deposited into the member's DC account and the remaining 2 percent 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 at age fifty and after termination of employment.

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$322,922 for fiscal year 2020.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	TOTAL
Proportionate Share of the Net Pension Liability	\$2,152,878	\$4,356,888	\$6,509,766
Proportion of the Net Pension Liability	.0359822%	.01970159%	

***Actuarial Assumptions - SERS***

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

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

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The most recent experience study was completed June 30, 2015.

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

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

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

Asset Class	Target		Long Term Expected	
	Allocation		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	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

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

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District’s proportionate share of the net pension liability	\$3,016,952	\$2,152,878	\$1,428,244

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

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

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates are based on the RP-2014 Annuitant Mortality Tables 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Tables, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Tables with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

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

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
<b>Total</b>	<b>100.00 %</b>	
* Target weights will be phased in over a 24-month period concluding on July1, 2019.		
** 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

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

	Current 1% Decrease (6.45%)	Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$6,367,107	\$ 4,356,888	\$2,655,135



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)**

Net OPEB Asset/Liability 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/asset 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/asset 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.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which OPEB are financed; however, the District 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/asset. Resulting adjustments to the net OPEB liability/asset 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.

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



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(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. 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 2020, no allocation 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 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the District's surcharge obligation was \$22,698.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$22,698 for fiscal year 2020.

***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 was discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

*Net OPEB Liability (Asset)*

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability (asset) was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.03691070%	0.01970159%	
Proportionate Share of the:			
Net OPEB Liability (Asset)	\$928,226	(\$326,306)	\$601,920

*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, 2019, are presented below:

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

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption	
Medicare	5.25 to 4.75 percent
Pre-Medicare	7.00 to 4.75 percent

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:

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

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

Asset Class	Target		Long-Term Expected	
	Allocation		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	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.70 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 3.13 percent, as of June 30, 2019 (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 District's 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 (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
School District's proportionate share of the net OPEB liability	\$1,126,691	\$928,226	\$770,424

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

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

	1% Decrease	Current Trend Rate	1% Increase
	(6.00 % decreasing to 3.75%)	(7.00 % decreasing to 4.75%)	(8.00 % decreasing to 5.75%)
School District's proportionate share of the net OPEB liability	\$743,697	\$928,226	\$1,173,052

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 initial, 4 percent 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, 2019, 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, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

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

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

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
<b>Total</b>	<b>100.00 %</b>	
* Target weights will be phased in over a 24-month period concluding on July1, 2019.		
** 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2019.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** - The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)**

		Current	
	1% Decrease	Discount Rate	1% Increase
	(6.45%)	(7.45%)	(8.45%)
School District's proportionate share of the net OPEB asset	\$278,437	\$326,306	\$366,552

		Current	
	1% Decrease	Trend Rate	1% Increase
School District's proportionate share of the net OPEB asset	\$370,016	\$326,306	\$272,771

**10. CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2020 will not have a material adverse effect on the District.

**B. Foundation**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end.

**C. Litigation**

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

**11. SET-ASIDE CALCULATIONS**

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**11. SET-ASIDE CALCULATIONS (CONTINUED)**

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

Balance June 30, 2019	\$ -
Current Year Set Aside Requirement	109,677
Qualifying Expenditures	<u>(109,677)</u>
Set Aside Reserve Balance June 30, 2020	<u><u>\$ -</u></u>

**12. LONG TERM LIABILITIES**

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

<b>School Improvement</b>	<b>Principal Outstanding 6/30/2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>Principal Outstanding 6/30/2020</b>	<b>Amount Due in One Year</b>
2016 Refunding Term Bonds - 4%	\$ 1,805,000	\$ -	\$ -	\$ 1,805,000	\$ -
2016 Refunding Serial Bonds 2 - 4%	<u>\$ 2,280,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 2,105,000</u>	<u>\$ 185,000</u>
	<u>\$ 4,085,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 3,910,000</u>	<u>\$ 185,000</u>

On March 27, 2008, the District issued \$5,799,999 in voted general obligation bonds for the purpose of building a new K-12 school building. The bonds were issued for a twenty eight year period with final maturity at December 1, 2035. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,255,000, \$4,445,000, and \$100,000, respectively. The serial bonds were fully paid during fiscal year 2016 and the capital appreciation bonds were fully paid during fiscal year 2018. The term bonds were fully advance refunded during fiscal year 2016. The bonds were retired from the Bond Retirement Fund, with the proceeds of a 10.34 mil voted property tax.

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

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

The District's overall legal debt margin was \$2,991,072 with an energy conservation debt margin of \$299,107 and unvoted debt margin of \$65,793 at June 30, 2020.



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(Continued)**

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

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

General Obligation Term/Serial Bonds			
Year Ended	Principal	Interest	Total
2021	185,000	150,300	335,300
2022	185,000	143,825	328,825
2023	200,000	136,125	336,125
2024	200,000	128,125	328,125
2025	210,000	119,925	329,925
2026-2030	1,190,000	463,425	1,653,425
2031-2035	1,445,000	200,724	1,645,724
2036	295,000	5,163	300,163
Total	<u>\$ 3,910,000</u>	<u>\$ 1,347,612</u>	<u>\$ 5,257,612</u>

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

**13. JOINTLY GOVERNED ORGANIZATIONS**

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

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$36,704 for services provided during the fiscal year 2020. Financial information can be obtained from Don Walls, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

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

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

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

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

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

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

**14. PURCHASING POOLS**

**Sheakley Workers' Compensation Group Rating Plan** - For fiscal year 2020, the District participated in the Sheakley Workers' Compensation Group Rating Plan, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among six local Districts. This group purchasing pool formed a voluntary employee benefit association to provide health and dental coverage and life benefits to participants at a lower rate than if the individual districts acted independently. As of January 1, 2018, the Consortium is self-insured for health and dental coverage. The consortium uses Jefferson Health Plan and Self Funded Plans, Inc. to administrate the program. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**Southwestern Ohio Educational Purchasing Council Insurance Program** - The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

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

The District paid \$30,820 to the group during fiscal year 2020 for Property and Casualty Insurance. JW Specialty Company is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**15. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are as follows:

1. Outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis).

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the cash basis for the general fund are as follows:

	<u>Net Change in Fund Balance</u>
Cash Basis	(\$109,620)
Adjustment for Encumbrances	<u>(194,685)</u>
Budget Basis	<u><u>(\$304,305)</u></u>

**16. FUND BALANCES**

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

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SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(Continued)**

**16. FUND BALANCES (CONTINUED)**

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b>Restricted for</b>				
Food Service Operations	\$ -	\$ -	\$ 43,506	\$ 43,506
Athletics	-	-	32,687	32,687
Debt Service Payments	-	979,674	-	979,674
Other Purposes	-	-	1,095,946	1,095,946
<i>Total Restricted</i>	-	979,674	1,172,139	2,151,813
<b>Committed to</b>				
Other Purposes	47,076	-	-	47,076
<i>Total Committed</i>	47,076	-	-	47,076
<b>Assigned to</b>				
Subsequent Appropriations	2,406,938	-	-	2,406,938
Other Purposes	193,450	-	7,609	201,059
<i>Total Assigned</i>	2,600,388	-	7,609	2,607,997
<b>Unassigned (Deficit)</b>	3,823,059	-	(8,924)	3,814,135
<i>Total Fund Balances</i>	<u>\$ 6,470,523</u>	<u>\$ 979,674</u>	<u>\$ 1,170,824</u>	<u>\$ 8,621,021</u>

**17. COVID-19 PANDEMIC**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. The District's investment portfolio and the investments of the pension and other employee benefit plan in which the District participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**Fairlawn Local School District**  
*Statement of Net Position-Cash Basis*  
*June 30, 2019*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	\$8,596,836
<i>Total Assets</i>	\$8,596,836
 <b>Net Position</b>	
Restricted for:	
Debt Service	966,778
Other Purposes	1,057,009
Unrestricted	6,573,049
<i>Total Net Position</i>	\$8,596,836

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Activities - Cash Basis*  
For the Fiscal Year Ended June 30, 2019

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 2,455,462	\$ 1,446,556	\$ 21,223	\$ (987,683)
Special	793,463	234,614	172,116	(386,733)
Adult/Continuing	102			(102)
Support Services:				
Pupil	371,772			(371,772)
Instructional Staff	299,230			(299,230)
Board of Education	9,149			(9,149)
Administration	592,349			(592,349)
Fiscal	295,394			(295,394)
Business	5,997			(5,997)
Operation and Maintenance of Plant	816,905		20,349	(796,556)
Pupil Transportation	544,713			(544,713)
Operation of Non-Instructional	246,106	119,042	67,845	(59,219)
Extracurricular Activities	253,186	38,368		(214,818)
Capital Outlay	15,001			(15,001)
Debt Service				
Principal	170,000			(170,000)
Interest and Fiscal Charges	160,875		40,583	(120,292)
<i>Total Governmental Activities</i>	<u>7,029,704</u>	<u>1,838,580</u>	<u>322,116</u>	<u>(4,869,008)</u>
<b>General Revenues</b>				
Property Taxes Levied for:				
				1,418,578
General Purposes				313,712
Debt Service				
Income Taxes Levied for:				
				394,300
General Purposes				2,877,952
Grants and Entitlements not Restricted to Specific Programs				110,841
Investment Earnings				70,612
Miscellaneous				<u>5,185,995</u>
<i>Total General Revenues</i>				
				316,987
Change in Net Position				
				<u>8,279,849</u>
<i>Net Position Beginning of Year</i>				
				<u>\$ 8,596,836</u>
<i>Net Position End of Year</i>				

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
**Governmental Funds**  
*June 30, 2019*

	<b>General</b>	<b>Bond Retirement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Equity in Pooled Cash, Cash Equivalents, and Investments	\$6,580,143	\$966,778	\$1,049,915	\$8,596,836
<i>Total Assets</i>	<u>6,580,143</u>	<u>966,778</u>	<u>1,049,915</u>	<u>8,596,836</u>
<b>Fund Balances</b>				
Restricted		966,778	1,034,392	2,001,170
Committed	47,076			47,076
Assigned	293,053		22,617	315,670
Unassigned (deficit)	6,240,014		(7,094)	6,232,920
<i>Total Fund Balances</i>	<u>6,580,143</u>	<u>966,778</u>	<u>1,049,915</u>	<u>8,596,836</u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Cash Receipts, Disbursements, and Changes  
in Fund Balances - Cash Basis - Governmental Funds  
For the Fiscal Year Ended June 30, 2019*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$1,795,379	\$313,711	17,500	\$2,126,590
Intergovernmental	2,877,952	40,583	281,534	3,200,069
Interest	110,812		29	110,841
Tuition and Fees	1,681,170			1,681,170
Extracurricular Activities			38,368	38,368
Charges for Services			119,041	119,041
Miscellaneous	53,662		16,950	70,612
<i>Total Revenues</i>	<u>6,518,975</u>	<u>354,294</u>	<u>473,422</u>	<u>7,346,691</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,433,978		21,484	2,455,462
Special	618,957		174,506	793,463
Adult/Continuing	102			102
Support Services:				
Pupil	366,526		5,246	371,772
Instructional Staff	298,646		584	299,230
Board of Education	9,149			9,149
Administration	592,349			592,349
Fiscal	287,610	7,784		295,394
Business	5,997			5,997
Operation and Maintenance of Plant	806,842		10,063	816,905
Pupil Transportation	544,713			544,713
Operation of Non-Instructional Services			246,106	246,106
Extracurricular Activities	210,318		42,868	253,186
Capital Outlay	15,001			15,001
Debt Service:				
Principal Retirement		170,000		170,000
Interest and Fiscal Charges		160,875		160,875
<i>Total Expenditures</i>	<u>6,190,188</u>	<u>338,659</u>	<u>500,857</u>	<u>7,029,704</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>328,787</u>	<u>15,635</u>	<u>(27,435)</u>	<u>316,987</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In			49,000	49,000
Transfer Out	(49,000)			(49,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(49,000)</u>	<u>0</u>	<u>49,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	279,787	15,635	21,565	316,987
<i>Fund Balances Beginning of Year</i>	<u>6,300,356</u>	<u>951,143</u>	<u>1,028,350</u>	<u>8,279,849</u>
<i>Fund Balances End of Year</i>	<u>\$6,580,143</u>	<u>\$966,778</u>	<u>\$1,049,915</u>	<u>\$8,596,836</u>

See accompanying notes to the basic financial statements



**Fairlawn Local School District**  
*Statement of Receipts, Disbursements, and Changes*  
*In Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2019*

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Taxes	\$1,714,011	\$1,714,011	\$1,795,379	\$81,368
Intergovernmental	2,875,000	\$2,875,000	\$2,877,952	2,952
Interest	100,000	\$100,000	\$110,812	10,812
Tuition and Fees	1,680,000	\$1,680,000	\$1,681,170	1,170
Miscellaneous	50,000	\$50,000	\$53,662	3,662
<i>Total Revenues</i>	6,419,011	6,419,011	6,518,975	99,964
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,455,000	2,455,000	2,452,681	2,319
Special	635,000	635,000	633,457	1,543
Adult/Continuing	500	500	500	0
Support Services:				
Pupils	370,000	370,000	366,526	3,474
Instructional Staff	300,000	300,000	299,705	295
Board of Education	10,000	10,000	9,541	459
Administration	600,000	600,000	593,549	6,451
Fiscal	300,000	300,000	294,624	5,376
Business	7,000	7,000	5,997	1,003
Operation and Maintenance of Plant	850,000	850,000	835,793	14,207
Pupil Transportation	550,000	550,000	544,998	5,002
Extracurricular Activities	254,758	254,758	211,658	43,100
Capital Outlay	107,550	401,550	235,446	166,104
<i>Total Expenditures</i>	6,439,808	6,733,808	6,484,475	249,333
<i>Excess of Revenues Over (Under) Expenditures</i>	(20,797)	(314,797)	34,500	349,297
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(49,000)	(49,000)	(49,000)	0
<i>Total Other Financing Sources (Uses)</i>	(49,000)	(49,000)	(49,000)	0
<i>Net Change in Fund Balance</i>	(69,797)	(363,797)	(14,500)	349,297
<i>Fund Balance Beginning of Year</i>	6,264,109	6,264,109	6,264,109	0
Prior Year Encumbrances Appropriated	100,324	100,324	100,324	0
<i>Fund Balance End of Year</i>	\$6,294,636	\$6,000,636	\$6,349,933	\$349,297

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2019*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$127,988</u>
<b>Net Position</b>	
Held in Student Activities	<u>\$127,988</u>
<i>Total Net Position</i>	<u><u>\$127,988</u></u>

See accompanying notes to the basic financial statements

**Fairlawn Local School District**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2019*

	Private Purpose Trust
	Scholarship
<b>Additions</b>	
Gifts and Donation	\$1,500
<b>Deductions</b>	
Noninstructional Services	1,500
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	0
<i>Net Position End of Year</i>	\$0

See accompanying notes to the basic financial statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

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

The District was established in 1953. The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 502nd smallest in the State of Ohio (among 608 Districts) in terms of enrollment. This Board controls the District's one instructional/support facility staffed by 37 non-certificated employees, 40 certificated full time teaching personnel and 3 administrative employees to provide services to 605 students and other community members.

**Reporting Entity**

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. Fund Accounting**

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

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

**B. Basis of Presentation**

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

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

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

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

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

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

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as equity in pooled cash and cash equivalents and investments. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2019 was \$110,812 including \$25,486 assigned from other District funds.

**D. Restricted Assets**

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for capital improvements. See Note 11 for additional information regarding these set-asides. There are no restricted assets at June 30, 2019.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

**E. Inventory and Prepaid Items**

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

**F. Capital Assets**

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

**G. Compensated Absences**

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

**H. Long-term Obligations**

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

**I. Fund Balance**

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

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

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

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

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

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

**J. Net Position**

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

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

**K. Interfund Activity**

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

The statements report interfund loans as advances when made or repaid. During fiscal year 2019, the District did not advance funds to any other fund.

**L. Budgetary Data**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

**L. Budgetary Data (Continued)**

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

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

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

For purposes of measuring the net pension/OPEB liability and net OPEB asset, 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 plans. 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.

**3. COMPLIANCE**

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

**4. PROPERTY AND INCOME TAXES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2018, were levied after April 1, 2018, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Shelby County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	<u>2018 second - Half Collections</u>		<u>2019 first - Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/ Residential and Other Real Estate	\$ 58,660,160	90.90%	58,992,490	90.77%
Public Utility Personal	<u>5,871,210</u>	<u>9.10</u>	<u>5,999,540</u>	<u>9.23</u>
Total	<u><u>\$ 64,531,370</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 64,992,030</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$31.32		\$30.73	

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

**5. INTERFUND TRANSFERS**

Interfund cash transfers for the year ended June 30, 2019 were as follows:

<b>Transfer from</b>	<b>Transfer to</b>	<b>Amount</b>
General Fund	Food Service Fund	\$ 49,000

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

Ohio law restricts deposits and investments to the following:

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

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

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

**Deposits:** At year-end, the carrying amount of the District's deposits was \$3,724,723 and the bank balance was \$3,802,641. 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, 2019, \$500,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the District's remaining bank balance of \$3,302,641 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Ohio law requires that deposits either be insured or protected by (1) 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 percent of the deposits being secured, or (2) 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 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**Investments:** As of June 30, 2019 the District had various investments – Federal National Mortgage Association Note with carrying value of \$1,000,000 maturing on June 16, 2021 and Federal Farm Credit Bank Bond with carrying value of \$1,000,000 maturing on October 13, 2020. These investments have an S&P rating of AA+. The District also owns Goldman Sachs Bank, US Bank, Wells Fargo, BMV, Morgan Stanley Bank, Barclays Bank, Compass Bank, Citibank, Fairfield National Bank, First Representative Bank, Ally Bank, and Morgan Stanley Private Bank Certificates of Deposit each for \$250,000 and each are covered entirely by FDIC. Total District investments are \$5,000,000.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**7. RISK MANAGEMENT**

**A. Commercial Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

Buildings and Contents – replacement cost	\$ 24,000,000
General Liability - Per Occurrence	6,000,000
General Liability –Aggregate	8,000,000
Automobile Liability	6,000,000
Uninsured Motorists	8,000,000

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

**B. Workers' Compensation**

For fiscal year 2019, the District participated in the Sheakley Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

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

**C. Employee Medical Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) consisting of six local districts. The District is enrolled in an insurance plan, which is administered by Jefferson Health Plan and Self Funded Plan, Inc. The District pays monthly premium to Sun Life for life insurance benefits.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

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

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The 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 District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

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

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

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

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 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care fund.

The District’s contractually required contribution to SERS was \$202,687 for fiscal year 2019.

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

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



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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 age 55 with 27 years of service, or 30 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 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 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 the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with 5 years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 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 plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$331,620 for fiscal year 2019.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	TOTAL
Proportionate Share of the Net Pension Liability	\$2,101,551	\$4,287,280	\$6,388,831
Proportion of the Net Pension Liability	.0366943%	.01949849%	

***Actuarial Assumptions - SERS***

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

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

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent on and after April 1, 2018, COLA's for future retirees will be delayed three years following retirement
Investment rate of return	7.50 percent of net investment expense, including inflation
Actuarial cost method	Entry Age Normal

For 2018, 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 disabled members was 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 most recent experience study was completed June 30, 2015.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

Asset Class	Target		Long Term Expected	
	Allocation		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	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$2,960,192	\$2,101,551	\$1,381,637

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

*Actuarial Assumptions - STRS*

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation is presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

For the July 1, 2018, 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.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study, effective July 1, 2018.

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:

Asset Class	Target		Long Term Expected	
	Allocation		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	%		

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

\*10-Year 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 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	Current 1% Decrease (6.45%)	Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$6,261,066	\$4,287,280	\$2,616,787

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)**

**Net OPEB Asset/Liability**

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.

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

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

The net OPEB liability/asset 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/asset 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.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which OPEB are financed; however, the District 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/asset. Resulting adjustments to the net OPEB liability/asset 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.

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

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 2019, .5 percent 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$20,355.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$27,862 for fiscal year 2019.

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability (Asset)***

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability (asset) was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

	SERS	STRS	Total
Proportion of the Net OPEB Asset/Liability Current Measurement Date	0.0372753%	0.01949849%	
Proportionate Share of the:			
Net OPEB Liability (Asset)	\$1,034,118	\$(313,321)	\$720,797

***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, 2018, are presented below:



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

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:

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

Asset Class	Target		Long-Term Expected	
	Allocation		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	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 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 3.62 percent, as of June 30, 2018 (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 District's 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 (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

	1% Decrease	Current	1% Increase
	(2.70%)	Discount Rate (3.70%)	(4.70%)
District's proportionate share of the net OPEB liability	\$1,254,820	\$1,034,118	\$859,370

	1% Decrease	Current	1% Increase
	(6.25 % decreasing to 3.75%)	Trend Rate (7.25 % decreasing to 4.75%)	(8.25 % decreasing to 5.75%)
District's proportionate share of the net OPEB liability	\$843,343	\$1,034,118	\$1,298,655

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent 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, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

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
<b>Total</b>	<b>100.00 %</b>	
* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 asset was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB asset 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 projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB asset as of June 30, 2018. 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 asset as of June 30, 2017.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

*Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate* - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset 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 (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB asset	\$268,545	\$313,321	\$350,953

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB asset	\$348,828	\$313,321	\$277,260

**10. CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2019 will not have a material adverse effect on the District.

**B. Foundation**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end.

**C. Litigation**

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

**11. SET-ASIDE CALCULATIONS**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**11. SET-ASIDE CALCULATIONS (CONTINUED)**

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

Balance June 30, 2018	\$ -
Current Year Set Aside Requirement	110,976
Qualifying Expenditures	<u>(110,976)</u>
Set Aside Reserve Balance June 30, 2019	<u><u>\$ -</u></u>

**12. LONG TERM LIABILITIES**

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

<u>School Improvement</u>	<u>Principal Outstanding 6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2019</u>	<u>Amount Due in One Year</u>
2016 Refunding Term Bonds - 4%	\$ 1,805,000	\$ -	\$ -	\$ 1,805,000	\$ -
2016 Refunding Serial Bonds 2 - 4%	\$ 2,450,000	\$ -	\$ 170,000	\$ 2,280,000	\$ 175,000
	<u>\$ 4,255,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 4,085,000</u>	<u>\$ 175,000</u>

On March 27, 2008, the District issued \$5,799,999 in voted general obligation bonds for the purpose of building a new K-12 school building. The bonds were issued for a twenty eight year period with final maturity at December 1, 2035. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,255,000, \$4,445,000, and \$100,000, respectively. The serial bonds were fully paid during fiscal year 2016 and the capital appreciation bonds were fully paid during fiscal year 2018. The term bonds were fully advance refunded during fiscal year 2016. The bonds were retired from the Bond Retirement Fund, with the proceeds of a 10.34 mil voted property tax.

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

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

The District's overall legal debt margin was \$2,731,061 with an energy conservation debt margin of \$273,106 and unvoted debt margin of \$64,992 at June 30, 2019.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

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

General Obligation Term/Serial Bonds			
Year Ended	Principal	Interest	Total
2020	175,000	155,700	330,700
2021	185,000	150,300	335,300
2022	185,000	143,825	328,825
2023	200,000	136,125	336,125
2024	200,000	128,125	328,125
2025-2029	1,140,000	510,024	1,650,024
2030-2034	1,390,000	257,424	1,647,424
2035-2036	610,000	21,789	631,789
Total	<u>\$ 4,085,000</u>	<u>\$ 1,503,312</u>	<u>\$ 5,588,312</u>

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

**13. JOINTLY GOVERNED ORGANIZATIONS**

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

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$39,940 for services provided during the fiscal year 2019. Financial information can be obtained from Donn Walls, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

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

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

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

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

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

**14. PURCHASING POOLS**

**Sheakley Workers' Compensation Group Rating Plan** - For fiscal year 2019, the District participated in the Sheakley Workers' Compensation Group Rating Plan, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among six local Districts. This group purchasing pool formed a voluntary employee benefit association to provide health and dental coverage and life benefits to participants at a lower rate than if the individual districts acted independently. As of January 1, 2018, the Consortium is self-insured for health and dental coverage. The consortium uses Jefferson Health Plan and Self Funded Plans, Inc. to administrate the program. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**Southwestern Ohio Educational Purchasing Council Insurance Program** - The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

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

The District paid \$30,640 to the group during fiscal year 2019 for Property and Casualty Insurance. JW Specialty Company is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(Continued)**

**15. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are as follows:

1. Outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis).

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the cash basis for the general fund are as follows:

	<b>Net Change in Fund Balance</b>
Cash Basis	\$279,787
Adjustment for Encumbrances	(294,287)
Budget Basis	(\$14,500)

**16. FUND BALANCES**

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

<u>Fund Balances</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted for</b>				
Food Service Operations	\$ -	\$ -	\$ 26,421	\$ 26,421
Athletics	-	-	24,238	24,238
Debt Service Payments	-	966,778	-	966,778
Other Purposes	-	-	983,733	983,733
<i>Total Restricted</i>	-	966,778	1,034,392	2,001,170
<b>Committed to</b>				
Other Purposes	47,076	-	-	47,076
<i>Total Committed</i>	47,076	-	-	47,076
<b>Assigned to</b>				
Other Purposes	293,053	-	22,617	315,670
<b>Unassigned (Deficit)</b>	6,240,014	-	(7,094)	6,232,920
<i>Total Fund Balances</i>	\$ 6,580,143	\$ 966,778	\$ 1,049,915	\$ 8,596,836

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# OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, (the District) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2020, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the District.

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

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-001.

***Purpose of this Report***

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



Keith Faber  
Auditor of State  
Columbus, Ohio

December 15, 2020

FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2020 AND 2019

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

FINDING NUMBER 2020-001

**NONCOMPLIANCE**

**Ohio Rev. Code § 117.38(A)** provides that each public office “shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.”

**Ohio Admin. Code § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District’s ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

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

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# Fairlawn Local Schools

## Board of Education

18800 Johnston Road

Sidney, Ohio 45365

Phone: (937) 492-1974 Fax: (937) 492-8613



Jeffrey Hobbs, Superintendent

Keith Doseck, Treasurer

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### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS June 30, 2020 and 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B) – Failure to file GAAP financial statements	Not corrected	Repeated as finding number 2020-001 – District chose to file cash financial statement

# OHIO AUDITOR OF STATE KEITH FABER



**FAIRLAWN LOCAL SCHOOL DISTRICT**

**SHELBY COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 1/21/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)