



Dave Yost • Auditor of State

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY
JUNE 30, 2017**

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FAIRFIELD COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Fairfield Union Local School District
Fairfield County
6417 Cincinnati – Zanesville Rd NE
Lancaster, OH 43130

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Union Local School District, Fairfield County, Ohio, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018, 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.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 28, 2018

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position of governmental activities decreased \$1,908,816 which represents a 4.43% decrease from 2016.
- General revenues accounted for \$19,847,939 in revenue or 80.10% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$4,951,687 or 19.97% of total revenues of \$24,793,195.
- The District had \$25,082,195 in expenses related to governmental activities; only \$4,951,687 of these expenses was offset by program specific charges for services, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,847,939 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, the bond retirement fund, and classroom facilities fund. The general fund had \$21,879,138 in revenues and other financing sources and \$21,665,337 in expenditures and other financing uses. During fiscal 2017, the general fund's fund balance increased \$213,801 from a fund balance of \$9,499,990 to \$9,713,791.
- The bond retirement fund had \$2,334,372 in revenues and other financing sources and \$1,756,615 in expenditures and other financing uses. The fund balance of the bond retirement fund increased \$577,757 from \$5,322,463 to \$5,900,220.
- The classroom facilities fund had \$56,629 in revenues and other financing sources and a repayment of \$1,456,833. The fund balance of the classroom facilities fund decreased \$1,400,204 from \$1,901,375 to \$501,171.

Using the Basic Financial Statements (BFS)

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

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

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

These two statements report the District's *net position* and change in net position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, the bond retirement fund, and the classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statement of fiduciary assets and liabilities on page 25. This activity is excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-65 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 66-72 of this report.

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

The table on the following page provides a summary of the District's net position at June 30, 2017 and June 30, 2016.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Net Position | |
|--|---|---|
| | Governmental Activities <u>2017</u> | Governmental Activities <u>2016</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 30,536,768 | \$ 30,669,548 |
| Capital assets, net | <u>63,707,587</u> | <u>63,314,473</u> |
| Total assets | <u>94,244,355</u> | <u>93,984,021</u> |
| <u>Deferred outflows of resources</u> | <u>7,284,227</u> | <u>4,307,886</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 4,871,321 | 2,919,363 |
| Long-term liabilities: | | |
| Due within one year | 1,384,674 | 1,009,463 |
| Due in more than one year: | | |
| Net pension liability | 30,226,549 | 24,822,880 |
| Other amounts | <u>24,255,254</u> | <u>25,215,206</u> |
| Total liabilities | <u>60,737,798</u> | <u>53,966,912</u> |
| <u>Deferred inflows of resources</u> | <u>5,667,180</u> | <u>7,292,575</u> |
| <u>Net Position</u> | | |
| Net investment in capital assets | 41,139,587 | 40,304,411 |
| Restricted | 8,593,707 | 10,612,653 |
| Unrestricted | <u>(14,609,690)</u> | <u>(13,884,644)</u> |
| Total net position | <u><u>\$ 35,123,604</u></u> | <u><u>\$ 37,032,420</u></u> |

During a prior fiscal year, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71 "Pension Transition for Contributions made subsequent to the measurement date—an Amendment of GASB Statement No.68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the District's assets plus deferred outflows exceeded liabilities plus deferred inflows by \$35,123,604.

At year-end, capital assets represented 67.60% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles, library and textbooks. Net investment in capital assets at June 30, 2017, was \$41,139,587. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

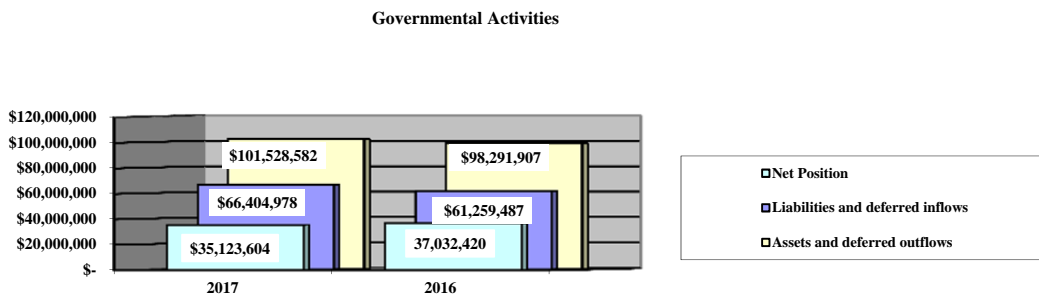
**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

A portion of the District's net position, \$8,593,707 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$14,609,690. The table below illustrates the District's assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2017 and 2016:

The table below shows the change in net position for fiscal year 2017 and 2016.

| | Change in Net Position | |
|------------------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2017 | Governmental Activities 2016 |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 2,538,220 | \$ 2,568,031 |
| Operating grants and contributions | 2,388,734 | 2,328,978 |
| Capital grants and contributions | 24,733 | 11,525 |
| General revenues: | | |
| Property taxes | 5,760,538 | 5,539,498 |
| Income taxes | 4,598,244 | 4,493,554 |
| Grants and entitlements | 9,325,606 | 9,150,834 |
| Investment earnings | 72,950 | 33,701 |
| Other | 90,601 | 70,717 |
| Total revenues | 24,799,626 | 24,196,838 |



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Governmental Activities <u>2017</u> | Governmental Activities <u>2016</u> |
|--|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 10,122,813 | \$ 8,994,677 |
| Special | 3,130,170 | 2,951,044 |
| Vocational | 568,359 | 482,921 |
| Other | 249,883 | 225,091 |
| Support services: | | |
| Pupil | 1,153,911 | 985,169 |
| Instructional staff | 1,144,042 | 768,286 |
| Board of education | 57,885 | 12,984 |
| Administration | 1,662,740 | 1,401,786 |
| Fiscal | 601,554 | 618,193 |
| Operations and maintenance | 1,577,317 | 2,017,582 |
| Pupil transportation | 1,643,409 | 1,620,518 |
| Central | 120,107 | 228,874 |
| Operation of non-instructional services: | | |
| Other non-instructional services | 1,446 | 2,874 |
| Food service operations | 1,183,680 | 1,131,993 |
| Extracurricular activities | 812,716 | 862,286 |
| Interest and fiscal charges | <u>1,052,163</u> | <u>962,767</u> |
| Total expenses | <u>25,082,195</u> | <u>23,267,045</u> |
| Special item | (1,626,247) | - |
| Change in net position | (1,908,816) | 929,793 |
| Net position at beginning of year | <u>37,032,420</u> | <u>36,102,627</u> |
| Net position at end of year | <u>\$ 35,123,604</u> | <u>\$ 37,032,420</u> |

Governmental Activities

Net position of the District's governmental activities decreased \$(1,908,816). Total governmental expenses of \$25,082,195 were offset by program revenues of \$4,951,687 and general revenues of \$19,847,939. Program revenues supported 19.74% of the total governmental expenses. The District also had a special item of a repayment to the Ohio Facilities Construction Commission in the amount of \$1,626,247.

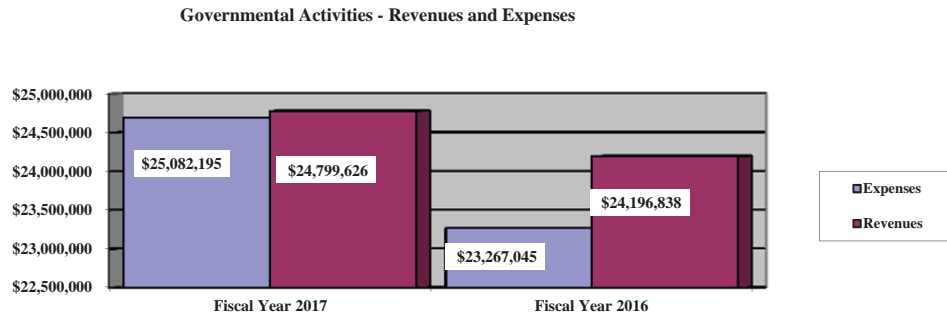
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 79.37% of total governmental revenue. Real estate property is reappraised every six years.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$14,071,225 or 56.1% of total governmental expenses for fiscal year 2017.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2017 and 2016.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

| Governmental Activities | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|--|
| | Total Cost of | Net Cost of | Total Cost of | Net Cost of | |
| | Services | Services | Services | Services | |
| | <u>2017</u> | <u>2017</u> | <u>2016</u> | <u>2016</u> | |
| Program expenses | | | | | |
| Instruction: | | | | | |
| Regular | \$ 10,122,813 | \$ 8,198,296 | \$ 8,994,677 | \$ 7,123,132 | |
| Special | 3,130,170 | 1,814,858 | 2,951,044 | 1,615,819 | |
| Vocational | 568,359 | 371,799 | 482,921 | 316,618 | |
| Other | 249,883 | 249,883 | 225,091 | 222,829 | |
| Support services: | | | | | |
| Pupil | 1,153,911 | 1,150,802 | 985,169 | 979,079 | |
| Instructional staff | 1,144,042 | 1,121,108 | 768,286 | 759,993 | |
| Board of education | 57,885 | 57,885 | 12,984 | 12,984 | |
| Administration | 1,662,740 | 1,662,740 | 1,401,786 | 1,401,786 | |
| Fiscal | 601,554 | 601,299 | 618,193 | 618,193 | |
| Operations and maintenance | 1,577,317 | 1,513,682 | 2,017,582 | 1,927,045 | |
| Pupil transportation | 1,643,409 | 1,601,931 | 1,620,518 | 1,578,025 | |
| Central | 120,107 | 112,907 | 228,874 | 221,674 | |
| Operation of non-instructional services: | | | | | |
| Other non-instructional services | 1,446 | (524) | 2,874 | (951) | |
| Food service operations | 1,183,680 | 103,258 | 1,131,993 | 72,743 | |
| Extracurricular activities | 812,716 | 518,421 | 862,286 | 546,775 | |
| Interest and fiscal charges | <u>1,052,163</u> | <u>1,052,163</u> | <u>962,767</u> | <u>962,767</u> | |
| Total expenses | \$ 25,082,195 | \$ 20,130,508 | \$ 23,267,045 | \$ 18,358,511 | |

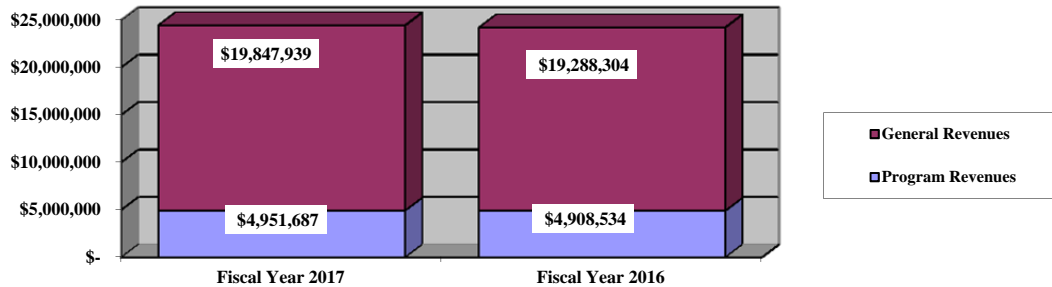
**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The dependence upon tax and other general revenues for governmental activities is apparent, as 80.3% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.11%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2017 and 2016.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$18,780,690 which is \$1,833,605 less than last year's total of \$20,614,295. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

| | Fund Balance <u>June 30, 2017</u> | Fund Balance <u>June 30, 2016</u> | Increase <u>(Decrease)</u> |
|----------------------|--------------------------------------|--------------------------------------|-------------------------------|
| General | \$ 9,713,791 | \$ 9,499,990 | \$ 213,801 |
| Bond retirement | 5,900,220 | 5,322,463 | 577,757 |
| Classroom facilities | 501,171 | 1,901,375 | (1,400,204) |
| Other Governmental | <u>2,665,508</u> | <u>3,890,467</u> | <u>(1,224,959)</u> |
| Total | <u>\$ 18,780,690</u> | <u>\$ 20,614,295</u> | <u>\$ (1,833,605)</u> |

General Fund

The District's general fund's fund balance increased by \$213,801. The increase in fund balance can be attributed to the District's ability to continually monitor expenditures and practice cost containment strategies to keep expenditure increases as low as possible.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | <u>2017</u> <u>Amount</u> | <u>2016</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Property taxes | \$ 4,979,248 | \$ 4,829,211 | 3.11 % |
| Income taxes | 4,495,963 | 4,401,578 | 2.14 % |
| Tuition | 1,767,521 | 1,762,620 | 0.28 % |
| Earnings on investments | 70,617 | 32,139 | 119.72 % |
| Intergovernmental | 10,151,863 | 9,989,021 | 1.63 % |
| Other revenues | <u>170,171</u> | <u>174,761</u> | (2.63) % |
| Total | <u>\$ 21,635,383</u> | <u>\$ 21,189,330</u> | 2.11 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 11,954,946 | \$ 10,962,731 | 9.05 % |
| Support services | 7,284,534 | 6,720,965 | 8.39 % |
| Extracurricular activities | 375,841 | 434,172 | (13.43) % |
| Capital outlay | 234,767 | - | 100 % |
| Debt service | <u>66,410</u> | <u>75,607</u> | (12.16) % |
| Total | <u>\$ 19,916,498</u> | <u>\$ 18,193,475</u> | 9.47 % |

Revenues remained relatively stable, with an increase of less than three percent. Expenditures increased 9.47%, primarily in the area of instructional expenses.

Bond Retirement Fund

The bond retirement fund had \$602,607 in revenues, \$1,731,765 in transfers from the general fund and \$1,756,615 in expenditures. The expenditures in the fund were used for principal and interest payments on bonds and fiscal fees related to property taxes. The fund balance of the bond retirement fund increased from \$5,322,463 to \$5,900,220.

Classroom Facilities Fund

The classroom facilities fund had \$14,626 in revenues, \$42,003 in transfers from the other governmental funds and \$1,456,833 as a special item. The special item was a repayment to the Ohio Facilities Construction Commission. The fund balance of the classroom facilities fund decreased from \$1,901,375 to \$501,171.

General Fund Budgeting Highlights

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

During the course of fiscal year 2017, the District amended its general fund budget. For the general fund, original revenues and other financing sources were \$21,067,872. The final budgeted revenues and other financing sources were increased to \$21,652,338. Actual revenues and other financing sources for fiscal year 2017 were \$21,661,208. This represents a \$8,870 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures and other financing uses) were \$21,883,940 and final appropriations were \$22,542,920. The actual budget basis expenditures and other financing uses for fiscal year 2017 were also \$22,542,920.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the District had \$63,707,587 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles, library and textbooks. The entire amount is reported in governmental activities. The following table shows June 30, 2017 balances compared to June 30, 2016:

**Capital Assets at June 30
(Net of Depreciation)**

Governmental Activities

| | <u>2017</u> | <u>2016</u> | |
|---------------------------|-----------------------------|-----------------------------|--|
| Land | \$ 356,747 | \$ 356,747 | |
| Construction in progress | 201,240 | 89,208 | |
| Land improvements | 824,482 | 894,920 | |
| Building and improvements | 60,240,738 | 59,911,901 | |
| Furniture and equipment | 1,224,557 | 1,195,476 | |
| Vehicles | 857,363 | 851,385 | |
| Library and textbooks | <u>2,460</u> | <u>14,836</u> | |
| Total | <u>\$ 63,707,587</u> | <u>\$ 63,314,473</u> | |

Total additions to capital assets for 2017 were \$1,749,536. Depreciation expense for fiscal year 2017 was \$1,071,571. Disposals, net of accumulated depreciation, were \$284,851. Overall, capital assets of the District increased \$393,114.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Debt Administration

At June 30, 2017, the District had \$23,223,918 in general obligation bonds and capital lease obligations outstanding. Of this total, \$1,245,273 is due within one year and 21,978,645 is due in greater than one year.

The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

| | Governmental Activities <u>2017</u> | Governmental Activities <u>2016</u> |
|---------------------------|---|---|
| General obligation bonds | \$ 22,990,198 | \$ 23,704,884 |
| Capital lease obligations | <u>233,720</u> | <u>112,364</u> |
| Total | <u>\$ 23,223,918</u> | <u>\$ 23,817,248</u> |

See Note 11 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Although considered a lower mid-wealth district, Fairfield Union Local School District has been financially stable over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Of the District's funding, 43% is received through the State's foundation program, which along with other various grants and entitlements makes up just under 47% of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on the increased funding to meet inflation. The careful financial planning and passage of additional local taxes when needed have permitted the District to provide a quality education for students, along with the maintenance of existing facilities.

The District does not anticipate any meaningful growth in revenue. Based upon this anticipated loss of revenue, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Residential/agricultural property contributes approximately 89% of the District's real estate valuation.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Kevin D. Miller, Treasurer of the Fairfield Union Local School District, 6417 Cincinnati-Zanesville Rd. NE, Lancaster, Ohio 43130.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 21,429,360 |
| Cash with fiscal agent | 888,459 |
| Receivables: | |
| Property taxes | 6,039,592 |
| Income taxes. | 1,847,769 |
| Accounts. | 34,845 |
| Accrued interest | 4,582 |
| Intergovernmental | 144,475 |
| Prepayments | 16,477 |
| Materials and supplies inventory. | 131,209 |
| Capital assets: | |
| Nondepreciable capital assets | 557,987 |
| Depreciable capital assets, net. | 63,149,600 |
| Capital assets, net | 63,707,587 |
| Total assets. | 94,244,355 |
| Deferred outflows of resources: | |
| Unamortized deferred charges on debt refunding | 1,707,092 |
| Pension - STRS | 4,201,694 |
| Pension - SERS | 1,375,441 |
| Total deferred outflows of resources | 7,284,227 |
| Liabilities: | |
| Accounts payable. | 135,679 |
| Contracts payable. | 161,083 |
| Accrued wages and benefits payable | 1,686,267 |
| Intergovernmental payable | 1,868,928 |
| Pension and post employment obligation payable. | 260,014 |
| Accrued interest payable | 49,432 |
| Claims payable. | 709,918 |
| Long-term liabilities: | |
| Due within one year. | 1,384,674 |
| Due in more than one year: | |
| Net pension liability (See Note 14) | 30,226,549 |
| Other amounts due in more than one year | 24,255,254 |
| Total liabilities | 60,737,798 |
| Deferred inflows of resources: | |
| Property taxes levied for the next fiscal year. | 5,079,830 |
| Pension - STRS. | 428,190 |
| Pension - SERS. | 159,160 |
| Total deferred inflows of resources | 5,667,180 |
| Net position: | |
| Net investment in capital assets | 41,139,587 |
| Restricted for: | |
| Capital projects | 1,667,979 |
| Classroom facilities maintenance | 927,627 |
| Debt service. | 5,425,602 |
| Locally funded programs | 6,657 |
| State funded programs. | 381 |
| Student activities | 129,363 |
| Other purposes | 436,098 |
| Unrestricted (deficit) | (14,609,690) |
| Total net position. | \$ 35,123,604 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--|-------------------|-----------------------------------|---------------------------------------|-------------------------------------|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 10,122,813 | \$ 1,814,189 | \$ 85,595 | \$ 24,733 | \$ (8,198,296) |
| Special | 3,130,170 | - | 1,315,312 | - | (1,814,858) |
| Vocational | 568,359 | - | 196,560 | - | (371,799) |
| Adult/continuing. | - | - | - | - | - |
| Other | 249,883 | - | - | - | (249,883) |
| Support services: | | | | | |
| Pupil. | 1,153,911 | - | 3,109 | - | (1,150,802) |
| Instructional staff | 1,144,042 | - | 22,934 | - | (1,121,108) |
| Board of education | 57,885 | - | - | - | (57,885) |
| Administration. | 1,662,740 | - | - | - | (1,662,740) |
| Fiscal. | 601,554 | 255 | - | - | (601,299) |
| Business. | - | - | - | - | - |
| Operations and maintenance | 1,577,317 | 12,696 | 50,939 | - | (1,513,682) |
| Pupil transportation. | 1,643,409 | - | 41,478 | - | (1,601,931) |
| Central | 120,107 | - | 7,200 | - | (112,907) |
| Operation of non-instructional services: | | | | | |
| Other non-instructional services | 1,446 | - | 1,970 | - | 524 |
| Food service operations | 1,183,680 | 416,785 | 663,637 | - | (103,258) |
| Extracurricular activities. | 812,716 | 294,295 | - | - | (518,421) |
| Discretionary | - | - | - | - | - |
| Discretionary | - | - | - | - | - |
| Interest and fiscal charges | 1,052,163 | - | - | - | (1,052,163) |
| Total governmental activities | 25,082,195 | 2,538,220 | 2,388,734 | 24,733 | (20,130,508) |
| General revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 4,965,556 |
| Debt service. | | | | | 529,003 |
| Capital outlay. | | | | | 265,979 |
| Income taxes levied for: | | | | | |
| General purposes | | | | | 4,598,244 |
| Grants and entitlements not restricted to specific programs | | | | | |
| Investment earnings | | | | | 9,325,606 |
| Miscellaneous | | | | | 72,950 |
| | | | | | 90,601 |
| Total general revenues | | | | | 19,847,939 |
| Special item: | | | | | |
| Repayment to the Ohio Facilities Construction Commission | | | | | (1,626,247) |
| Total general revenues and special item. | | | | | 18,221,692 |
| Change in net position | | | | | (1,908,816) |
| Net position at beginning of year | | | | | 37,032,420 |
| Net position at end of year. | | | | | \$ 35,123,604 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

| | General | Bond Retirement | Classroom Facilities | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|---------------------|-------------------------|-----------------------------------|--------------------------------|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents. | \$ 9,703,405 | \$ 5,847,671 | \$ 1,958,004 | \$ 3,111,034 | \$ 20,620,114 |
| Receivables: | | | | | |
| Property taxes. | 5,208,029 | 555,559 | - | 276,004 | 6,039,592 |
| Income taxes | 1,847,769 | - | - | - | 1,847,769 |
| Accounts | 32,458 | - | - | 2,387 | 34,845 |
| Accrued interest | 4,582 | - | - | - | 4,582 |
| Intergovernmental. | 62,369 | - | - | 82,106 | 144,475 |
| Prepayments. | 15,914 | - | - | 563 | 16,477 |
| Materials and supplies inventory. | 117,124 | - | - | 14,085 | 131,209 |
| Due from other funds | 24,813 | - | - | - | 24,813 |
| Total assets | <u>\$ 17,016,463</u> | <u>\$ 6,403,230</u> | <u>\$ 1,958,004</u> | <u>\$ 3,486,179</u> | <u>\$ 28,863,876</u> |
| Liabilities: | | | | | |
| Accounts payable | \$ 80,040 | \$ - | \$ - | \$ 54,569 | \$ 134,609 |
| Contracts payable. | - | - | - | 161,083 | 161,083 |
| Accrued wages and benefits payable | 1,571,973 | - | - | 114,294 | 1,686,267 |
| Compensated absences payable | 11,336 | - | - | - | 11,336 |
| Intergovernmental payable | 241,513 | - | 1,456,833 | 170,582 | 1,868,928 |
| Pension and post employment obligation payable. | 236,982 | - | - | 23,032 | 260,014 |
| Due to other funds | - | - | - | 24,813 | 24,813 |
| Total liabilities. | <u>2,141,844</u> | <u>-</u> | <u>1,456,833</u> | <u>548,373</u> | <u>4,147,050</u> |
| Deferred inflows of resources: | | | | | |
| Property taxes levied for the next fiscal year. | 4,382,026 | 463,751 | - | 234,053 | 5,079,830 |
| Delinquent property tax revenue not available. | 368,029 | 39,259 | - | 19,504 | 426,792 |
| Income tax revenue not available | 348,404 | - | - | - | 348,404 |
| Intergovernmental revenue not available. | 62,369 | - | - | 18,741 | 81,110 |
| Total deferred inflows of resources | <u>5,160,828</u> | <u>503,010</u> | <u>-</u> | <u>272,298</u> | <u>5,936,136</u> |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Materials and supplies inventory. | 117,124 | - | - | 14,085 | 131,209 |
| Prepays. | 15,914 | - | - | 563 | 16,477 |
| Restricted: | | | | | |
| Debt service | - | 5,900,220 | - | - | 5,900,220 |
| Capital improvements | - | - | 501,171 | 1,147,304 | 1,648,475 |
| Classroom facilities maintenance | - | - | - | 927,627 | 927,627 |
| Food service operations | - | - | - | 446,976 | 446,976 |
| Extracurricular. | - | - | - | 129,363 | 129,363 |
| Other purposes. | - | - | - | 18,124 | 18,124 |
| Assigned: | | | | | |
| Student instruction | 409,660 | - | - | - | 409,660 |
| Student and staff support. | 292,256 | - | - | - | 292,256 |
| Extracurricular activities | 9,000 | - | - | - | 9,000 |
| Subsequent year's appropriations | 2,355,126 | - | - | - | 2,355,126 |
| Other purposes. | 4,694 | - | - | - | 4,694 |
| Unassigned (deficit) | 6,510,017 | - | - | (18,534) | 6,491,483 |
| Total fund balances | <u>9,713,791</u> | <u>5,900,220</u> | <u>501,171</u> | <u>2,665,508</u> | <u>18,780,690</u> |
| Total liabilities, deferred inflows and fund balances | <u>\$ 17,016,463</u> | <u>\$ 6,403,230</u> | <u>\$ 1,958,004</u> | <u>\$ 3,486,179</u> | <u>\$ 28,863,876</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

| | | |
|--|--------------|----------------------|
| Total governmental fund balances | | \$ 18,780,690 |
| <i>Amounts reported for governmental activities on the statement of net position are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 63,707,587 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. | | |
| Taxes receivable | \$ 775,196 | |
| Intergovernmental receivable | 81,110 | |
| Total | | 856,306 |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. | | 986,717 |
| Unamortized premiums on bonds issued are not recognized in the funds. | | (1,376,837) |
| The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows/outflows are not reported in governmental funds. | | |
| Deferred outflows - Pension | 5,577,135 | |
| Deferred inflows - Pension | (587,350) | |
| Net pension liability | (30,226,549) | |
| Total | | (25,236,764) |
| Unamortized amounts on refundings are not recognized in the funds. | | 1,707,092 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | (49,432) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| General obligation bonds | (22,990,198) | |
| Capital lease obligations | (1,027,837) | |
| Compensated absences | (233,720) | |
| Total | | (24,251,755) |
| Net position of governmental activities | | \$ 35,123,604 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | General | Bond Retirement | Classroom Facilities | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|-------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Property taxes | \$ 4,979,248 | \$ 530,419 | \$ - | \$ 267,348 | \$ 5,777,015 |
| Income taxes | 4,495,963 | - | - | 85,674 | 4,581,637 |
| Tuition | 1,767,521 | - | - | - | 1,767,521 |
| Earnings on investments | 70,617 | - | 14,626 | 13,185 | 98,428 |
| Charges for services | - | - | - | 416,785 | 416,785 |
| Extracurricular | 20,206 | - | - | 274,344 | 294,550 |
| Classroom materials and fees | 46,668 | - | - | - | 46,668 |
| Rental income | 12,696 | - | - | - | 12,696 |
| Contributions and donations | - | - | - | 19,139 | 19,139 |
| Other local revenues | 90,601 | - | - | - | 90,601 |
| Intergovernmental - intermediate | - | - | - | 13,700 | 13,700 |
| Intergovernmental - state | 10,042,129 | 72,188 | - | 95,986 | 10,210,303 |
| Intergovernmental - federal | 109,734 | - | - | 1,370,788 | 1,480,522 |
| Total revenues | 21,635,383 | 602,607 | 14,626 | 2,556,949 | 24,809,565 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 8,832,865 | - | - | 83,198 | 8,916,063 |
| Special | 2,374,972 | - | - | 640,494 | 3,015,466 |
| Vocational | 511,094 | - | - | - | 511,094 |
| Other | 236,015 | - | - | - | 236,015 |
| Support services: | | | | | |
| Pupil | 1,070,505 | - | - | 3,102 | 1,073,607 |
| Instructional staff | 960,983 | - | - | 103,136 | 1,064,119 |
| Board of education | 33,012 | - | - | - | 33,012 |
| Administration | 1,462,299 | - | - | 138,782 | 1,601,081 |
| Fiscal | 562,898 | 11,234 | - | 5,187 | 579,319 |
| Operations and maintenance | 1,687,988 | - | - | 181,374 | 1,869,362 |
| Pupil transportation | 1,396,830 | - | - | 17,074 | 1,413,904 |
| Central | 110,019 | - | - | 7,200 | 117,219 |
| Operation of non-instructional services: | | | | | |
| Other non-instructional services | - | - | - | 1,446 | 1,446 |
| Food service operations | - | - | - | 1,088,296 | 1,088,296 |
| Extracurricular activities | 375,841 | - | - | 264,925 | 640,766 |
| Facilities acquisition and construction | - | - | - | 1,053,351 | 1,053,351 |
| Capital outlay | 234,767 | - | - | - | 234,767 |
| Debt service: | | | | | |
| Principal retirement | 58,375 | 708,249 | - | - | 766,624 |
| Interest and fiscal charges | 8,035 | 820,383 | - | - | 828,418 |
| Accreted interest on capital appreciation bonds | - | 216,749 | - | - | 216,749 |
| Total expenditures | 19,916,498 | 1,756,615 | - | 3,587,565 | 25,260,678 |
| Excess (deficiency) of revenues over (under) expenditures | 1,718,885 | (1,154,008) | 14,626 | (1,030,616) | (451,113) |
| Other financing sources (uses): | | | | | |
| Sale of assets | 8,988 | - | - | - | 8,988 |
| Transfers in | - | 1,731,765 | 42,003 | 17,074 | 1,790,842 |
| Transfers (out) | (1,748,839) | - | - | (42,003) | (1,790,842) |
| Capital lease transaction | 234,767 | - | - | - | 234,767 |
| Total other financing sources (uses) | (1,505,084) | 1,731,765 | 42,003 | (24,929) | 243,755 |
| Special item - repayment to OFCC | - | - | (1,456,833) | (169,414) | (1,626,247) |
| Net change in fund balances | 213,801 | 577,757 | (1,400,204) | (1,224,959) | (1,833,605) |
| Fund balances at beginning of year | 9,499,990 | 5,322,463 | 1,901,375 | 3,890,467 | 20,614,295 |
| Fund balances at end of year | \$ 9,713,791 | \$ 5,900,220 | \$ 501,171 | \$ 2,665,508 | \$ 18,780,690 |

OMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2017

| | | |
|---|-------------|--------------------|
| Net change in fund balances - total governmental funds | \$ | (1,833,605) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period. | | |
| Capital asset additions | 1,749,536 | |
| Current year depreciation | (1,071,571) | |
| Total | | 677,965 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | |
| | | (284,851) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Taxes | 130 | |
| Earnings on investments | (1,549) | |
| Intergovernmental | (17,729) | |
| Total | | (19,148) |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. | | |
| Capital lease obligations | 58,375 | |
| General obligation bonds | 634,998 | |
| Capital appreciation bonds | 73,251 | |
| Accreted interest on capital appreciation bonds | 216,749 | |
| Total | | 983,373 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities: | | |
| Decrease in accrued interest payable | 18,983 | |
| Amortization of bond premium | 105,900 | |
| Amortization of deferred charges on refundings | (138,316) | |
| Accreted interest on capital appreciation bonds | (210,312) | |
| Total | | (223,745) |
| Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the long-term obligations on the statement of net position. | | |
| | | 55,036 |
| Proceeds of capital lease transactions are recorded as other financing sources in the funds, however, on the statement of activities, the proceeds increase the liabilities on the statement of net position. | | |
| | | (234,767) |
| Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. | | |
| | | 1,572,474 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. | | |
| | | (2,108,966) |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | (103,153) |
| An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. | | |
| | | (389,429) |
| Change in net position of governmental activities | | (1,908,816) |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 4,829,097 | \$ 4,890,092 | \$ 4,890,090 | \$ (2) |
| Income taxes | 4,558,274 | 4,584,476 | 4,584,476 | - |
| Tuition | 1,523,190 | 1,767,521 | 1,767,521 | - |
| Earnings on investments | 25,125 | 61,293 | 69,277 | 7,984 |
| Extracurricular | 20,036 | 20,206 | 20,206 | - |
| Classroom materials and fees | 47,184 | 46,510 | 46,668 | 158 |
| Rental income | 10,024 | 12,650 | 13,120 | 470 |
| Other local revenues | 25,132 | 72,915 | 73,174 | 259 |
| Intergovernmental - state | 9,935,119 | 10,040,147 | 10,040,148 | 1 |
| Intergovernmental - federal | 60,191 | 105,797 | 105,797 | - |
| Total revenues | <u>21,033,372</u> | <u>21,601,607</u> | <u>21,610,477</u> | <u>8,870</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,576,321 | 8,726,809 | 8,975,772 | (248,963) |
| Special | 2,660,081 | 2,660,041 | 2,789,327 | (129,286) |
| Vocational | 473,596 | 473,589 | 519,728 | (46,139) |
| Other | 226,433 | 244,430 | 240,715 | 3,715 |
| Support services: | | | | |
| Pupil | 1,006,094 | 976,078 | 1,114,801 | (138,723) |
| Instructional staff | 906,564 | 961,550 | 979,444 | (17,894) |
| Board of education | 39,712 | 39,712 | 33,038 | 6,674 |
| Administration | 1,484,038 | 1,528,674 | 1,590,819 | (62,145) |
| Fiscal | 558,937 | 659,929 | 584,078 | 75,851 |
| Operations and maintenance | 2,006,096 | 2,106,069 | 1,893,304 | 212,765 |
| Pupil transportation | 1,504,640 | 1,724,619 | 1,439,718 | 284,901 |
| Central | 199,821 | 199,818 | 177,647 | 22,171 |
| Extracurricular activities | 391,607 | 391,602 | 370,016 | 21,586 |
| Total expenditures | <u>20,033,940</u> | <u>20,692,920</u> | <u>20,708,407</u> | <u>(15,487)</u> |
| Excess of revenues over expenditures | <u>999,432</u> | <u>908,687</u> | <u>902,070</u> | <u>(6,617)</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 34,000 | 41,743 | 41,743 | - |
| Transfers (out) | (1,850,000) | (1,850,000) | (1,834,513) | 15,487 |
| Sale of capital assets | 500 | 8,988 | 8,988 | - |
| Total other financing sources (uses) | <u>(1,815,500)</u> | <u>(1,799,269)</u> | <u>(1,783,782)</u> | <u>15,487</u> |
| Net change in fund balance | (816,068) | (890,582) | (881,712) | 8,870 |
| Fund balance at beginning of year | 8,692,157 | 8,692,157 | 8,692,157 | - |
| Prior year encumbrances appropriated | 991,427 | 991,427 | 991,427 | - |
| Fund balance at end of year | <u>\$ 8,867,516</u> | <u>\$ 8,793,002</u> | <u>\$ 8,801,872</u> | <u>\$ 8,870</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

| | Governmental Activities - Internal Service Fund |
|---|--|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 809,246 |
| Cash with fiscal agent | 888,459 |
| | 1,697,705 |
| Liabilities: | |
| Accounts payable | 1,070 |
| Claims payable | 709,918 |
| | 710,988 |
| Net position: | |
| Unrestricted | 986,717 |
| | 986,717 |
| Total net position | \$ 986,717 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Governmental Activities - Internal Service Fund |
|---|--|
| Operating revenues: | |
| Charges for services. | \$ 3,256,519 |
| Total operating revenues | 3,256,519 |
| Operating expenses: | |
| Purchased services. | 256,638 |
| Claims | 3,393,192 |
| Total operating expenses. | 3,649,830 |
| Operating loss. | (393,311) |
| Nonoperating revenues: | |
| Interest revenue | 3,882 |
| Total nonoperating revenues. | 3,882 |
| Change in net position | (389,429) |
| Net position at beginning of year. | 1,376,146 |
| Net position at end of year | \$ 986,717 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | <u>Governmental Activities - Internal Service Funds</u> |
|---|--|
| Cash flows from operating activities: | |
| Cash received from interfund services provided | \$ 3,256,519 |
| Cash payments for contractual services | (256,445) |
| Cash payments for claims | <u>(3,047,874)</u> |
| Net cash used in operating activities. | <u>(47,800)</u> |
| Cash flows from investing activities: | |
| Interest received | <u>3,882</u> |
| Net cash provided by investing activities | <u>3,882</u> |
| Net decrease in cash and cash equivalents. | (43,918) |
| Cash and cash equivalents at beginning of year | <u>1,741,623</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 1,697,705</u></u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss. | \$ (393,311) |
| Changes in assets and liabilities: | |
| Increase in accounts payable. | 1,070 |
| Decrease in intergovernmental payable. | (877) |
| Increase in claims payable. | <u>345,318</u> |
| Net cash used in operating activities. | <u><u>\$ (47,800)</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

| | Agency |
|---|---------------|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 137,441 |
| Total assets | \$ 137,441 |
| Liabilities: | |
| Accounts payable | \$ 5,665 |
| Due to students | 122,339 |
| Due to others | 9,437 |
| Total liabilities | \$ 137,441 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Fairfield Union Local School District (the "District") is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. 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 statute and/or federal guidelines.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. It is staffed by 85 non-certified employees and 134 certified personnel who provide services to 1,978 students and other community members. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Meta Solutions

The District is a participant in Meta Solutions a computer consortium . Meta Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. Meta Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. Financial information can be obtained from David Varta, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

INSURANCE PURCHASING POOLS

CompManagement Health Systems Worker's Compensation Group Rating Plan

The District participates in a Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool with the CompManagement Health Systems. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

South Central Ohio Insurance Consortium

The District is a member of the South Central Ohio Insurance Consortium (SCOIC), an insurance purchasing pool. The SCOIC's primary purpose and objective is establishing and carrying out a cost effective cooperative health program for its member organizations. The governing board consists of the superintendent, treasurer, or other designee appointed by each of the members of the SCOIC. Members include 12 school districts, the City of Lancaster and the Fairfield County Board of Developmental Disabilities. The Bloom-Carroll Local School District serves as fiscal agent for the SCOIC. To obtain financial information for the SCOIC, write to the fiscal agent, Travis Bigam, Treasurer at 5240 Plum Road, Carroll, Ohio 43112.

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. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Fund Financial Statements - During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Classroom facilities fund - The classroom facilities fund is used to account for and report monies received that are restricted for expenditure in connection with contracts entered into by the District and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

FIDUCIARY FUNDS

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

D. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

E. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 14 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 14 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During the fiscal year 2017, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) . Except for non-participating investment contracts, investments are reported at fair value which is based on amortized costs.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District's investment in STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the District. The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2017, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business days(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$70,617, of this amount, \$24,288 was assigned from other funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

An analysis of the District's investments at year-end is provided in Note 4.

G. Inventory

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The District's capitalization is \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|-----------------------------|--|
| Land improvements | 15 - 30 years |
| Buildings and improvements | 15 - 99 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 5 - 15 years |
| Library books and textbooks | 10 years |

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2017, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future, all employees at least 45 years of age with 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

J. Unamortized Bond Premium and Deferred Charges

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On the governmental fund financial statements, bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.A.

For bond refunds resulting in defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

K. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Capital leases, bonds and long-term notes are recognized as a liability on the fund financial statements when due.

L. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes includes amounts restricted for food service.

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

M. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally 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 prepaids and property held for resale unless the use of the proceeds from the sale of these properties is restricted, committed or assigned.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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 (the highest level of decision making authority). 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.

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 nor 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 policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

O. Interfund Transactions

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Pensions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2017, the District reported no extraordinary items. However, the District reported a special item for the repayment of funds to the Ohio Facilities Construction Commission as a result of the project close-out.

R. Estimates

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

S. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that 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 selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

T. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the District's fiscal year 2017 financial statements (see Note 20); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2017 included the following individual fund deficits:

| <u>Nonmajor funds</u> | <u>Deficit</u> |
|---------------------------|----------------|
| Title I | \$ 15,630 |
| Improving teacher quality | 2,904 |

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "equity in pooled cash and cash equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2017 was \$888,459. This amount is not included in the "deposits" or "investments" reported below.

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all District deposits was \$10,501,593. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$10,052,093 of the District's bank balance of \$10,554,003 was exposed to custodial risk as discussed below, while \$501,910 was covered by the FDIC.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and 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.

C. Investments

As of June 30, 2017, the District had the following investment and maturity:

| <u>Investment type</u> | <u>Amortized Cost</u> | <u>Investment Maturity 6 months or less</u> |
|------------------------|-----------------------|---|
| STAR Ohio | <u>\$ 11,065,208</u> | <u>\$ 11,065,208</u> |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017:

| <u>Investment type</u> | <u>Amortized Cost</u> | <u>% of Total</u> |
|------------------------|-----------------------|-------------------|
| STAR Ohio | <u>\$ 11,065,208</u> | <u>100.00</u> |

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

| | |
|---|----------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 10,501,593 |
| Investments | 11,065,208 |
| Cash with fiscal agent | <u>888,459</u> |
| Total | <u>\$ 22,455,260</u> |
| <u>Cash and investments per statement of net position</u> | |
| Governmental activities | \$ 22,317,819 |
| Agency funds | <u>137,441</u> |
| Total | <u>\$ 22,455,260</u> |

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statement:

| | |
|--|---------------------|
| <u>Transfers from general fund to:</u> | <u>Amount</u> |
| Bond retirement fund | \$ 1,731,765 |
| Nonmajor governmental funds | 17,074 |
| <u>Transfers from non-major governmental fund:</u> | |
| Classroom facilities fund | <u>42,003</u> |
| Total | <u>\$ 1,790,842</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The transfer of \$42,003 from the classroom facilities fund to the building fund (a nonmajor governmental fund) was related to the project close-out of the Ohio Facilities Construction Commission building project.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

B. Interfund Loan Balances

Interfund loan balances for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statement:

| | |
|--|---------------|
| <u>Due from non-major governmental funds to:</u> | <u>Amount</u> |
| general fund | \$ 24,813 |

The primary purpose of interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are not received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2017 are reported on the statement of net position.

NOTE 6 - SCHOOL INCOME TAXES

The District currently benefits from a 2.00% income tax, which is assessed on all residents of the District. The District apportions the proceeds to the general fund and earmarks a portion to be used for classroom facilities maintenance. During fiscal year 2017, the District received \$4,598,244 from the school income tax on the government-wide financial statements.

NOTE 7 - PROPERTY 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.

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, 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 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - PROPERTY TAXES - (Continued)

The District receives property taxes from Fairfield County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available as an advance at June 30, 2017 was \$457,974 in the general fund, \$52,549 in the bond retirement fund and \$22,447 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2016 was \$368,816 in the general fund, \$44,102 in the bond retirement fund and \$17,877 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

The assessed values upon which the fiscal year 2017 taxes were collected are:

| | 2016 Second Half Collections | | 2017 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 214,684,170 | 88.88 | \$ 224,647,240 | 89.03 |
| Public utility personal | <u>26,848,320</u> | <u>11.12</u> | <u>27,669,690</u> | <u>10.97</u> |
| Total | <u>\$ 241,532,490</u> | <u>100.00</u> | <u>\$ 252,316,930</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$44.80 | | \$44.80 | |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - RECEIVABLES

Receivables at June 30, 2017 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

| | |
|-------------------|---------------------|
| Property taxes | \$ 6,039,592 |
| Income taxes | 1,847,769 |
| Accounts | 34,845 |
| Intergovernmental | 144,475 |
| Accrued interest | <u>4,582</u> |
| Total | <u>\$ 8,071,263</u> |

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 9 - CAPITAL ASSETS

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

| | <u>Balance 06/30/16</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 06/30/17</u> |
|---|-----------------------------|--------------------|---------------------|-----------------------------|
| Governmental activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 356,747 | \$ - | \$ - | \$ 356,747 |
| Construction in progress | <u>89,208</u> | <u>201,240</u> | <u>(89,208)</u> | <u>201,240</u> |
| Total capital assets, not being depreciated | <u>445,955</u> | <u>201,240</u> | <u>(89,208)</u> | <u>557,987</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,408,760 | - | - | 1,408,760 |
| Buildings and improvements | 63,734,727 | 977,988 | - | 64,712,715 |
| Furniture and equipment | 2,382,604 | 400,776 | (501,972) | 2,281,408 |
| Vehicles | 1,920,865 | 169,532 | (155,094) | 1,935,303 |
| Library books and textbooks | <u>494,837</u> | <u>-</u> | <u>-</u> | <u>494,837</u> |
| Total capital assets, being depreciated | <u>69,941,793</u> | <u>1,548,296</u> | <u>(657,066)</u> | <u>70,833,023</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (513,840) | (70,438) | - | (584,278) |
| Buildings and improvements | (3,822,826) | (649,151) | - | (4,471,977) |
| Furniture and equipment | (1,187,128) | (181,370) | 311,647 | (1,056,851) |
| Vehicles | (1,069,480) | (158,236) | 149,776 | (1,077,940) |
| Library books and textbooks | <u>(480,001)</u> | <u>(12,376)</u> | <u>-</u> | <u>(492,377)</u> |
| Total accumulated depreciation | <u>(7,073,275)</u> | <u>(1,071,571)</u> | <u>461,423</u> | <u>(7,683,423)</u> |
| Governmental activities capital assets, net | <u>\$ 63,314,473</u> | <u>\$ 677,965</u> | <u>\$ (284,851)</u> | <u>\$ 63,707,587</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|---------------------|
| <u>Instruction:</u> | |
| Regular | \$ 523,422 |
| Special | 28,468 |
| Vocational | 14,543 |
| <u>Support services:</u> | |
| Pupil | 20,864 |
| Instructional staff | 51,369 |
| Board of Education | 339 |
| Administration | 26,132 |
| Fiscal | 2,645 |
| Operations and maintenance | 33,156 |
| Pupil transportation | 153,833 |
| Extracurricular activities | 155,081 |
| Food service operations | <u>61,719</u> |
| Total depreciation expense | <u>\$ 1,071,571</u> |

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior year and in the current year, the District entered into capital leases for the acquisition of school buses and copiers. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability has been recorded as a long-term obligation. Principal payments in fiscal year 2017 totaled \$58,375. In addition, \$55,036 was forgiven as part of the lease-trade in agreement.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2017:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|---|-------------------|
| 2018 | \$ 69,181 |
| 2019 | 51,830 |
| 2020 | 51,830 |
| 2021 | 51,830 |
| 2022 | <u>30,234</u> |
| Total minimum lease payment | 254,905 |
| Less: amount representing interest | <u>(21,185)</u> |
| Present value of minimum lease payments | <u>\$ 233,720</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2017, the following changes occurred in governmental activities long-term obligations.

| | Interest Rate | Balance 07/01/16 | Increase | Decrease | Balance 06/30/17 | Amount Due in One Year |
|------------------------------------|------------------|----------------------|---------------------|-----------------------|----------------------|------------------------------|
| <u>Governmental activities:</u> | | | | | | |
| Refunding HS bond | 4.20% | \$ 235,000 | \$ - | \$ (75,000) | \$ 160,000 | \$ 80,000 |
| Series 2006A - buses | 4.20% | 35,000 | - | (35,000) | - | - |
| Series 2006A - bonds | 4.20% | 310,000 | - | (310,000) | - | - |
| Series 2007 - bonds | 4.10% | 79,998 | - | (79,998) | - | - |
| Series 2012 refunding bonds | 2.50% | 7,659,886 | 210,312 | (290,000) | 7,580,198 | 254,312 |
| Series 2014 refunding bonds | 1.0 - 3.0% | 9,270,000 | - | (75,000) | 9,195,000 | 80,000 |
| Series 2015 refunding bonds | 1.0 - 3.0% | 6,115,000 | - | (60,000) | 6,055,000 | 770,000 |
| Net pension liability | N/A | 24,822,880 | 5,403,669 | - | 30,226,549 | - |
| Capital leases payable | N/A | 112,364 | 234,767 | (113,411) | 233,720 | 60,961 |
| Compensated absences | N/A | 924,684 | 188,246 | (73,757) | 1,039,173 | 139,401 |
| Total governmental activities | | <u>\$ 49,564,812</u> | <u>\$ 6,036,994</u> | <u>\$ (1,112,166)</u> | 54,489,640 | <u>\$ 1,384,674</u> |
| Add: unamortized premium on bonds | | | | | <u>1,376,837</u> | |
| Total on statement of net position | | | | | <u>\$ 55,866,477</u> | |

The District's notes and bonds are paid from the Bond Retirement Debt Service Fund. The capital leases are all paid from the General Fund. The compensated absences are paid from the fund from which the respective employees' salaries are paid. See Note 14 for detail on the net pension liability.

General Obligation Bonds - Buildings and Improvements - In April 2006, general obligation bonds at 4.10% interest were issued in the amount of \$7,989,550, as a result of the District being approved for school facilities funding through the State Department of Education for the renovation of the Junior-Senior High School Building and to begin the design process for three new buildings. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 3 mil levy in November 2005. Of the 3 mil levy, 2.5 mils is used for the retirement of the bonds that were issued and are in effect for thirty years. The remaining .5 mil is used for repairs and maintenance of the facility. As a part of this funding process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the thirty year period expires. If the District's adjusted valuation per pupil increased above the State-wide median adjusted valuation during the thirty year period, the District may become responsible for repayment of a portion of the State's contribution. In fiscal year 2013, the District refunded \$7,455,000 of these bonds.

Refunding General Obligation Bonds - During fiscal year 2007, the District issued \$800,000 of general obligation bonds at 4.2% for the advance refunding of \$820,000 of the 1993 building bonds. The proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments. The payment to the escrow agent resulted in an insubstance defeasance of the Building Bonds. As a result, the liability for the Building Bonds was removed as a liability of the District.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds - Series 2006A - Buses - In December of 2006, the District issued \$280,000 in general obligation bus bonds for the purchase of school buses. These bonds have an interest of 4.20% and mature in 2021.

General Obligation Bonds - Series 2006A - Classroom Facilities - In December of 2006, The District issued \$8,215,000 in general obligation bonds for purpose of funding a portion of the basic project cost of a classroom facilities project in accordance with a Project Agreement with the Ohio School Facilities Commission. These bonds have an interest of 4.20% and mature in 2029. In fiscal year 2014, the District refunded \$3,635,000 of the bonds. During fiscal year 2015, the District refunded \$2,435,000 of the bonds

General Obligation Bonds - Series 2007 - The general obligation bonds were issued in the amount of \$9,959,998 at 4.1% interest in January 2007 to repay the bond anticipation notes. The District issued the general obligation bonds to cover the District's share of the Ohio Facilities Construction Commission project. In fiscal year 2014, the District refunded \$5,215,000 of these bonds. During fiscal year 2015, the District refunded \$3,360,000 of these bonds.

Series 2012 Refunding Bonds: On October 2, 2012, the District issued general obligation bonds (Series 2012 Refunding Bonds) to advance refund \$7,455,000 of the Series 2006 general obligation bonds. The issuance proceeds were used to purchase securities which were place in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The refunding issue is comprised of both current interest bonds, par value \$7,215,000, and capital appreciation bonds, par value \$239,553. The interest rates on the current interest bonds range from 2.0% to 3.0%. The capital appreciation bonds mature annually on December 1, 2015 through December 1, 2019 (interest rate 36.30%), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,350,000. Total accreted interest of \$464,445 has been included on the statement of net position. Interest payments of the current interest bonds are due on June 1 and December 1 of each year. The final maturity date stated on the issue is December 1, 2033.

The following is a schedule of activity for fiscal year 2017 for the Series 2012 refunding bonds:

| | Balance | | | Balance |
|------------------------------|---------------------|-------------------|---------------------|---------------------|
| | <u>07/01/16</u> | <u>Additions</u> | <u>Reductions</u> | <u>06/30/17</u> |
| Current interest bonds - | | | | |
| Series 2012 refunding bonds | \$ 6,990,000 | \$ - | \$ - | \$ 6,990,000 |
| Capital appreciation bonds - | | | | |
| Series 2012 refunding bonds | 199,004 | - | (73,251) | 125,753 |
| Capital appreciation bonds - | | | | |
| Accreted interest | <u>470,882</u> | <u>210,312</u> | <u>(216,749)</u> | <u>464,445</u> |
| Total G.O. bonds | <u>\$ 7,659,886</u> | <u>\$ 210,312</u> | <u>\$ (290,000)</u> | <u>\$ 7,580,198</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$1,065,657. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Series 2014 Refunding Bonds: On June 10, 2014, the District issued general obligation bonds (Series 2014 Refunding Bonds) to advance refund \$3,635,000 of the series 2006A general obligation bonds and \$5,215,000 of the series 2007 general obligation bonds.

The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The refunding issue is comprised of current interest bonds, par value \$9,365,000. The interest rates on the current interest bonds range from 1.0% to 3.0%. Interest payments of the current interest bonds are due on June 1 and December 1 of each year. The final maturity date stated on the issue is December 1, 2026.

The reacquisition price exceeded the net carrying amount of the old debt by \$788,231. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Series 2015 Refunding Bonds: On February 2, 2015, the District issued general obligation bonds (Series 2015 Refunding Bonds) to advance refund \$2,435,000 of the series 2006A general obligation bonds and \$3,360,000 of the series 2007 general obligation bonds.

The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The refunding issue is comprised of current interest bonds, par value \$6,210,000. The interest rates on the current interest bonds range from 1.0% to 3.0%. Interest payments of the current interest bonds are due on June 1 and December 1 of each year. The final maturity date stated on the issue is December 1, 2029.

The reacquisition price exceeded the net carrying amount of the old debt by \$390,972. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The annual requirements to retire the general obligation bonds outstanding at June 30, 2017 are as follows:

| Fiscal Year Ending June 30 | Series 2012 - Current Interest Bonds | | | Series 2012 - Capital Appreciation Bonds | | |
|-------------------------------|--------------------------------------|---------------------|---------------------|--|-------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ - | \$ 186,724 | \$ 186,724 | \$ 54,282 | \$ 245,718 | \$ 300,000 |
| 2019 | - | 186,724 | 186,724 | 40,830 | 274,170 | 315,000 |
| 2020 | - | 186,724 | 186,724 | 30,640 | 299,360 | 330,000 |
| 2021 | 345,000 | 183,725 | 528,725 | - | - | - |
| 2022 | 365,000 | 176,176 | 541,176 | - | - | - |
| 2023 - 2027 | 2,125,000 | 732,064 | 2,857,064 | - | - | - |
| 2028 - 2032 | 2,810,000 | 414,751 | 3,224,751 | - | - | - |
| 2033 - 2034 | 1,345,000 | 40,875 | 1,385,875 | - | - | - |
| Total | \$ 6,990,000 | \$ 2,107,763 | \$ 9,097,763 | \$ 125,752 | \$ 819,248 | \$ 945,000 |

| Fiscal Year Ending June 30 | Refunding HS Bonds | | |
|-------------------------------|--------------------|-----------------|-------------------|
| | Principal | Interest | Total |
| 2018 | \$ 80,000 | \$ 4,800 | \$ 84,800 |
| 2019 | 80,000 | 1,600 | 81,600 |
| Total | \$ 160,000 | \$ 6,400 | \$ 166,400 |

| Fiscal Year Ending June 30 | Series 2014 Refunding Bonds | | | Series 2015 Refunding Bonds | | |
|-------------------------------|-----------------------------|---------------------|----------------------|-----------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ 80,000 | \$ 249,675 | \$ 329,675 | \$ 770,000 | \$ 148,138 | \$ 918,138 |
| 2019 | 80,000 | 248,475 | 328,475 | 815,000 | 139,194 | 954,194 |
| 2020 | 925,000 | 238,625 | 1,163,625 | 15,000 | 133,875 | 148,875 |
| 2021 | 975,000 | 219,625 | 1,194,625 | 15,000 | 133,425 | 148,425 |
| 2022 | 1,040,000 | 199,475 | 1,239,475 | 15,000 | 132,975 | 147,975 |
| 2023 - 2027 | 6,095,000 | 487,388 | 6,582,388 | 95,000 | 656,925 | 751,925 |
| 2028 - 2030 | - | - | - | 4,330,000 | 197,550 | 4,527,550 |
| Total | \$ 9,195,000 | \$ 1,643,263 | \$ 10,838,263 | \$ 6,055,000 | \$ 1,542,082 | \$ 7,597,082 |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2017, are a voted debt margin of \$6,083,009 (including available funds of \$5,900,220) and an unvoted debt margin of \$252,317 and an unvoted energy conservation debt margin of \$2,270,852.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 60 days classified employees and 60 days for certified employees. In addition, certified employees who retire at 30 years of service or over and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 60 days.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the District contracted with Argonaut for professional, general liability property and fleet insurance. Coverages provided are as follows:

| <u>Type of Coverage</u> | <u>Liability Limit</u> |
|---|------------------------|
| Building and Contents - replacement cost (\$2,500 deductible) | \$61,534,012 |
| Musical Instruments (\$500 deductible) | 100,000 |
| Automobile Liability Per Occurrence | 1,000,000 |
| Uninsured Motorists Per Person | 1,000,000 |
| Per Accident | 1,000,000 |
| <i>General Liability:</i> Per Occurrence (\$1,000 deductible) | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| <i>School Board Legal Liability:</i> Per Person (\$2,500 deductible) | 1,000,000 |
| Aggregate Limit | 3,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2016.

For fiscal year 2017, the District participated in the CompManagement Health Systems Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is 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 workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to a third party administrator, South Central Ohio Insurance Consortium, out of the District's Self-Insurance Internal Service Fund. EV Benefits services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - RISK MANAGEMENT - (Continued)

The claims liability of \$438,800 reported at June 30, 2017 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement (GASB) No. 10 “Accounting and Financial Reporting for Financing and Related Insurance Issues” as amended by GASB Statement No. 30 “Risk Financing Omnibus”, which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

| | | Balance at Beginning <u>of Year</u> | Current <u>Year Claims</u> | <u>Claim Payments</u> | Balance at <u>End of Year</u> |
|------|----|---|-------------------------------|-----------------------|----------------------------------|
| 2017 | \$ | 364,600 | \$ 3,393,192 | \$ (3,047,874) | \$ 709,918 |
| 2016 | | 498,700 | 2,461,680 | (2,595,780) | 364,600 |

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the 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.

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 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.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$361,932 for fiscal year 2017. Of this amount, \$19,453 is reported as pension and postemployment benefits payable.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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

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

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

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

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - 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 the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$1,210,542 for fiscal year 2017. Of this amount, \$198,624 is reported as pension and postemployment benefits payable.

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

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

| | SERS | STRS | Total |
|--|--------------|---------------|---------------|
| Proportion of the net pension liability prior measurement date | 0.08119620% | 0.07305312% | |
| Proportion of the net pension liability current measurement date | 0.08188570% | 0.07239644% | |
| Change in proportionate share | 0.00068950% | -0.00065668% | |
| Proportionate share of the net pension liability | \$ 5,993,278 | \$ 24,233,271 | \$ 30,226,549 |
| Pension expense | \$ 525,801 | \$ 1,583,165 | \$ 2,108,966 |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| Deferred outflows of resources | | | |
| Differences between expected and actual experience | \$ 80,834 | \$ 979,139 | \$ 1,059,973 |
| Net difference between projected and actual earnings on pension plan investments | 494,358 | 2,012,013 | 2,506,371 |
| Changes of assumptions | 400,084 | - | 400,084 |
| Difference between District contributions and proportionate share of contributions/ change in proportionate share | 38,223 | - | 38,223 |
| District contributions subsequent to the measurement date | <u>361,932</u> | <u>1,210,542</u> | <u>1,572,474</u> |
| Total deferred outflows of resources | <u>\$ 1,375,431</u> | <u>\$ 4,201,694</u> | <u>\$ 5,577,125</u> |
| Deferred inflows of resources | | | |
| Difference between District contributions and proportionate share of contributions/ change in proportionate share | <u>\$ 159,160</u> | <u>\$ 428,190</u> | <u>\$ 587,350</u> |
| Total deferred inflows of resources | <u>159,160</u> | <u>428,190</u> | <u>587,350</u> |

\$1,572,474 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------|---------------------|---------------------|
| 2018 | \$ 183,384 | \$ 341,447 | \$ 524,831 |
| 2019 | 183,027 | 341,448 | 524,475 |
| 2020 | 345,829 | 1,113,509 | 1,459,338 |
| 2021 | <u>142,109</u> | <u>766,548</u> | <u>908,657</u> |
| Total | <u>\$ 854,349</u> | <u>\$ 2,562,952</u> | <u>\$ 3,417,301</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, 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 | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal (level percent of payroll) |

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|------------------------------|---|
| Cash | 1.00 % | 0.50 % |
| US Equity | 22.50 | 4.75 |
| International Equity | 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 | <u>10.00</u> | 3.00 |
| Total | <u>100.00 %</u> | |

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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.50%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 7,934,726 | \$ 5,993,278 | \$ 4,368,205 |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.50 percent, net of investment expenses |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

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

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

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

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

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.50 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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 7.50 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 (6.50 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 | \$ 32,204,048 | \$ 24,233,271 | \$ 17,509,451 |

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

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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 2017, the District's surcharge obligation was \$42,325.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$42,325, \$39,599, and \$61,921, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General fund</u> |
|---|---------------------|
| Budget basis | \$ (881,712) |
| Net adjustment for revenue accruals | 7,479 |
| Net adjustment for expenditure accruals | (60,435) |
| Net adjustment for other sources/uses | 278,698 |
| Funds budgeted elsewhere | 885 |
| Adjustment for encumbrances | <u>868,886</u> |
| GAAP basis | <u>\$ 213,801</u> |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the class play fund and the public school support fund.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2016-2017 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As a result of the fiscal year 2017 reviews, the District is due \$1,618 from ODE. This amount has not been included in the financial statements.

NOTE 18 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 18 - SET-ASIDES - (Continued)

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2016 | \$ 337,107 |
| Current year set-aside requirement | - |
| Contributions in excess of the current fiscal year set-aside requirement | - |
| Current year qualifying expenditures | - |
| Excess qualified expenditures from prior years | - |
| Current year offsets | (308,371) |
| Waiver granted by ODE | - |
| Prior year offset from bond proceeds | <u>(28,736)</u> |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2018 | <u>\$ -</u> |
| Set-aside balance June 30, 2017 | <u>\$ -</u> |

NOTE 19 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-End Encumbrances</u> |
|-----------------------------------|----------------------------------|
| General fund | \$ 659,361 |
| Other nonmajor governmental funds | <u>188,249</u> |
| Total | <u>\$ 847,610</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 20 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Fairfield County provides tax abatements through Enterprise Zones (Ezone).

Ezone - Under the authority of ORC Sections 5709.62 and 5709.63, the Ezone program is an economic development tool administered by municipal and county governments that provides real and personal property tax exemptions to businesses making investments in Ohio. An Ezone is a designated area of land in which businesses can receive tax incentives in the form of tax exemptions on qualifying new investment. An Ezone's geographic area is identified by the local government involved in the creation of the zone. Once the zone is defined, the local legislative authority participating in the creation must petition the OSDA. The OSDA must then certify the area for it to become an active Enterprise Zone. The local legislative authority negotiates the terms of the Enterprise Zone Agreement (the "Agreement") with the business, which may include tax sharing with the Board of Education. Legislation must then be passed to approve the Agreement. All Agreements must be finalized before the project begins and may contain provisions for the recoupment of taxes should the individual or entity fail to perform. The amount of the abatement is deducted from the business's property tax bill.

The Ezone agreement entered into by Fairfield County affects the property tax receipts collected and distributed to the District. There was an Ezone agreement with Westerman Inc. that affected the District. Under the agreement, the District property taxes were reduced by \$8,361.

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|--------------|
| District's proportion of the net pension liability | 0.08188570% | 0.08119620% | 0.08729400% | 0.08729400% |
| District's proportionate share of the net pension liability | \$ 5,993,278 | \$ 4,633,134 | \$ 4,417,900 | \$ 5,191,094 |
| District's covered-employee payroll | \$ 2,630,750 | \$ 2,444,431 | \$ 2,536,580 | \$ 2,363,483 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 227.82% | 189.54% | 174.17% | 219.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 62.98% | 69.16% | 71.70% | 65.52% |

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------|---------------|---------------|---------------|
| District's proportion of the net pension liability | 0.07239644% | 0.73053120% | 0.07487082% | 0.07487082% |
| District's proportionate share of the net pension liability | \$ 24,233,271 | \$ 20,189,746 | \$ 18,211,175 | \$ 21,693,032 |
| District's covered-employee payroll | \$ 7,813,743 | \$ 7,748,593 | \$ 7,649,731 | \$ 7,623,585 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 310.14% | 260.56% | 238.06% | 284.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80% | 72.10% | 74.70% | 69.30% |

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 361,932 | \$ 368,305 | \$ 322,176 | \$ 351,570 |
| Contributions in relation to the contractually required contribution | <u>(361,932)</u> | <u>(368,305)</u> | <u>(322,176)</u> | <u>(351,570)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 2,585,229 | \$ 2,630,750 | \$ 2,444,431 | \$ 2,536,580 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% | 13.18% | 13.86% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 327,106 | \$ 307,733 | \$ 281,342 | \$ 316,682 | \$ 233,939 | \$ 228,743 |
| <u>(327,106)</u> | <u>(307,733)</u> | <u>(281,342)</u> | <u>(316,682)</u> | <u>(233,939)</u> | <u>(228,743)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 2,363,483 | \$ 2,287,978 | \$ 2,238,202 | \$ 2,338,863 | \$ 2,377,429 | \$ 2,329,358 |
| 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|--------------------|------------------|
| Contractually required contribution | \$ 1,210,542 | \$ 1,093,924 | \$ 1,084,803 | \$ 994,465 |
| Contributions in relation to the contractually required contribution | <u>(1,210,542)</u> | <u>(1,093,924)</u> | <u>(1,084,803)</u> | <u>(994,465)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 8,646,729 | \$ 7,813,743 | \$ 7,748,593 | \$ 7,649,731 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% | 14.00% | 13.00% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|--------------------|--------------------|--------------------|------------------|
| \$ 991,066 | \$ 955,874 | \$ 1,014,797 | \$ 1,062,601 | \$ 1,048,831 | \$ 998,542 |
| <u>(991,066)</u> | <u>(955,874)</u> | <u>(1,014,797)</u> | <u>(1,062,601)</u> | <u>(1,048,831)</u> | <u>(998,542)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 7,623,585 | \$ 7,352,877 | \$ 7,806,131 | \$ 8,173,854 | \$ 8,067,931 | \$ 7,681,092 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title | Federal CFDA Number | Total Federal Expenditures |
|---|------------------------------------|---------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| <i>Passed Through Ohio Department of Education</i> | | |
| Child Nutrition Cluster | | |
| National School Breakfast Program | 10.553 | \$ 136,207 |
| National School Lunch Program - Food Donation | 10.555 | 176,870 |
| National School Lunch Program | 10.555 | 338,272 |
| Total National School Lunch Program | | <u>515,142</u> |
| Total Child Nutrition Cluster | | 651,349 |
| Total U.S. Department of Agriculture | | <u>651,349</u> |
| U.S. DEPARTMENT OF EDUCATION | | |
| <i>Passed Through Ohio Department of Education</i> | | |
| Title I | | |
| Title I Grants to Local Educational Agencies | 84.010 | 328,009 |
| Special Education Cluster | | |
| Special Education_Grants to States | 84.027 | 334,364 |
| Special Education_Preschool Grants | 84.173 | 2,800 |
| Total Special Education Cluster | | <u>337,164</u> |
| Improving Teacher Quality State Grants | | |
| Improving Teacher Quality State Grants | 84.367 | 12,575 |
| Improving Teacher Quality State Grants | 84.367 | 56,936 |
| Total Improving Teacher Quality State Grants | | <u>69,511</u> |
| Total U.S. Department of Education | | <u>734,684</u> |
| Total Expenditures of Federal Awards | | <u>\$ 1,386,033</u> |

The accompanying notes are an integral part of this schedule.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Fairfield Union Local School District, (the District's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Fairfield Union Local School District
Fairfield County
6417 Cincinnati – Zanesville Rd NE
Lancaster, Ohio 43130

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 and 2017-002.

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District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

February 28, 2018



Dave Yost • Auditor of State

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

Fairfield Union Local School District
Fairfield County
6417 Cincinnati-Zanesville Rd NE
Lancaster, Ohio 43130

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Fairfield Union Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Fairfield Union Local School District's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Fairfield Union Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

February 28, 2018

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2017-001

Finding for Recovery- Noncompliance

The District has requirements listed in its Student Fundraising Activities policy (File: IGDF) to regulate cash collections for extracurricular activities which include, but are not limited to, the following:

- Consulting with the Building Administrator prior to the start of any fundraiser to discuss District policies and procedures for cash collections and fundraising
- Completing and submitting the Selling Projects Form and submitting to the building administrator before any fundraising activity begins
- Ensuring all deposits are made utilizing the approved pay-in format
- Completing the Selling Projects form and returning it to the Treasurer's office within two weeks after the designated ending date of the project.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|---|

FINDING NUMBER 2017-001 (Continued)

Finding for Recovery- Noncompliance (Continued)

Amanda Waddell was a Varsity and Junior Varsity Cheerleading coach for the District in 2017. Ms. Waddell distributed a fee schedule to students and started a fundraiser prior to consulting with the building administrator or creating the Selling Projects form referenced above. She collected monies for cheer camp, attire, and a fundraiser selling Century Pride and Sweet Treats products. While some receipts were deposited with the District, our investigation determined \$495 of revenues from cheer camp collections and \$2,285 from attire fees were collected but were not provided to the District for deposit. Canceled checks indicated some payments were issued to Ms. Waddell or to her personal business instead of the District. Out of concern for potential missing revenues, the District withheld \$900 of Ms. Waddell's salary reducing the potential finding for recovery to \$1,880.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for collected but unaccounted for receipts is hereby issued against Amanda Waddell in the amount of \$1,880 and in favor of the Fairfield Union Local School District Cheerleading fund.

Officials' Response: Refer to the Corrective action plan.

FINDING NUMBER 2017-002

Referral to Ohio Ethics Commission- Noncompliance

Ohio Rev. Code §2921.42 (A) states, in part, that no public official shall knowingly authorize or employ the authority, or influence, of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

Amanda Waddell was the Varsity and Junior Varsity Cheerleading coach for the District in 2017. As a coach, she used her position to solicit customers for her personal business, Cheer Infinity Athletics. Cancelled checks indicated some payments meant for the District for students to attend cheer camp and to obtain cheer attire were issued to the coach personally or to Cheer Infinity, Cheer Infinity Athletics or CIA. As stated in Finding 2017-001, not all revenues collected by Ms. Waddell were properly deposited with the District as required by law.

Despite being alerted to requirements of the Ohio Ethics law as evidenced by her signature on an acknowledgement form to the District, Ms. Waddell acted in violation of the law and may have profited from this action.

We recommend the District to be knowledgeable about a potential employee's outside employment prior to hiring, allowing the District to fully assess the risk that potential related party transactions or other ethical violations might occur.

This matter will be referred to the Ohio Ethics Commission.

Official's Response: Refer to the Corrective action plan.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

None



Fairfield Union Local School District

Board of Education Office
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**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2017**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|-----------------------|---|------------------------------------|-----------------------------------|
| 2017-001 | The finding was the result of a request of the District requesting an audit of the cheerleader account. Upon our review and questioning of the coach and our requesting for the audit review the coach resigned on October 27, 2017. We plan to request the County Prosecutor to seek collection of the missing funds as noted in the finding for recovery. | May 30, 2018 | Chad Belville |
| 2017-002 | The finding was the result of a request of the District requesting an audit of the cheerleader account. Upon our review and questioning of the coach and our requesting for the audit review the coach resigned on October 27, 2017. We plan to request the County Prosecutor to seek collection of the missing funds as noted in the finding for recovery. | May 30, 2018 | Chad Belville |



Dave Yost • Auditor of State

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 29, 2018