



OHIO AUDITOR OF STATE  
**KEITH FABER**





**FAYETTE LOCAL SCHOOL DISTRICT  
 FULTON COUNTY  
 JUNE 30, 2018**

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# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT

Fayette Local School District  
Fulton County  
400 East Gamble Road  
Fayette, Ohio 43521-9462

To the Board of Education:

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

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

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette Local School District, Fulton County, Ohio, as of June 30, 2018, and the respective changes in cash financial position and the respective budgetary comparison for the General and Classroom Facilities Maintenance funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

April 18, 2019

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2018**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ <u><u>3,354,938</u></u>
<b>Net Position:</b>	
Restricted for Debt Service	\$ 65,248
Restricted for Capital Outlay	127,480
Restricted for Other Purposes	558,866
Unrestricted	<u>2,603,344</u>
<i>Total Net Position</i>	\$ <u><u>3,354,938</u></u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

		<b>Program Receipts</b>			<b>Net (Disbursements) Receipts and Changes in Net Position</b>
	<b>Cash</b>	<b>Charges for</b>	<b>Operating</b>		<b>Governmental</b>
	<b>Disbursements</b>	<b>Services and</b>	<b>Grants and</b>		<b>Activities</b>
		<b>Sales</b>	<b>Contributions</b>		
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 2,588,670	\$ 198,313	\$ 13,146	\$	(2,377,211)
Special	888,125	61,475	435,355		(391,295)
Vocational	118,129		42,068		(76,061)
Other	3,350				(3,350)
Support Services:					
Pupils	285,978				(285,978)
Instructional Staff	290,893		4,748		(286,145)
Board of Education	22,551				(22,551)
Administration	493,697				(493,697)
Fiscal	261,581				(261,581)
Operation and Maintenance of Plant	566,343	145	14,519		(551,679)
Pupil Transportation	285,680				(285,680)
Central	39,034		1,040		(37,994)
Operation of Non-Instructional Services	193,197	63,084	108,394		(21,719)
Extracurricular Activities	259,729	112,082			(147,647)
Capital Outlay	1,923,457				(1,923,457)
Debt Service:					
Principal	91,518				(91,518)
Interest and Fiscal Charges	319,234				(319,234)
<b>Totals</b>	<b>\$ 8,631,166</b>	<b>\$ 435,099</b>	<b>\$ 619,270</b>	<b>\$</b>	<b>(7,576,797)</b>

**General Receipts:**

Taxes:	
Property Taxes, Levied for General Purposes	1,223,880
Property Taxes, Levied for Debt Service	341,354
Property Taxes, Levied for Permanent Improvements	58,683
Property Taxes, Levied for Facilities Maintenance	25,874
Income Taxes	501,627
Grants and Entitlements not Restricted to Specific Programs	3,567,098
Gifts and Donations	5,351
Investment Earnings	19,976
Miscellaneous	14,588
Loan Proceeds	77,195
Proceeds from Sale of Capital Assets	3,360
Refund of Prior Year Expenditures	10,065
<i>Total General Receipts</i>	<i>5,849,051</i>
<i>Change in Net Position</i>	<i>(1,727,746)</i>
Net Position Beginning of Year	5,082,684
<i>Net Position End of Year</i>	<i>\$ 3,354,938</i>

See Accompanying Notes to the Basic Financial Statements



FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	<u>General Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ <u>2,603,344</u>	\$ <u>127,480</u>	\$ <u>486,969</u>	\$ <u>137,145</u>	\$ <u>3,354,938</u>
<b>Fund Balances</b>					
Restricted		\$ 127,480	\$ 486,969	\$ 168,631	\$ 783,080
Assigned	\$ 34,877				34,877
Unassigned (Deficit)	2,568,467			(31,486)	2,536,981
<i>Total Fund Balances</i>	\$ <u>2,603,344</u>	\$ <u>127,480</u>	\$ <u>486,969</u>	\$ <u>137,145</u>	\$ <u>3,354,938</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Classroom Facilities Maintenance Fund</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Receipts:</b>					
Property and Other Local Taxes	\$ 1,223,880		\$ 15,961	\$ 409,950	\$ 1,649,791
Income Tax	501,627				501,627
Intergovernmental	3,726,716		16,599	443,003	4,186,318
Interest	19,976			50	20,026
Tuition and Fees	259,788				259,788
Rent	145				145
Extracurricular Activities	32,310			79,772	112,082
Gifts and Donations	5,351				5,351
Customer Sales and Services				59,149	59,149
Miscellaneous	13,548			4,975	18,523
<i>Total Receipts</i>	<u>5,783,341</u>	<u></u>	<u>32,560</u>	<u>996,899</u>	<u>6,812,800</u>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	2,575,524			13,146	2,588,670
Special	617,734			270,391	888,125
Vocational	113,781			4,348	118,129
Other	3,350				3,350
<b>Support Services:</b>					
Pupils	285,978				285,978
Instructional Staff	278,672			12,221	290,893
Board of Education	22,551				22,551
Administration	493,697				493,697
Fiscal	252,199		375	9,007	261,581
Operation and Maintenance of Plant	411,794		120,847	33,702	566,343
Pupil Transportation	285,680				285,680
Central	35,394			3,640	39,034
Operation of Non-Instructional Services	676			192,521	193,197
Extracurricular Activities	163,855			95,874	259,729
Capital Outlay	4,012	\$ 1,842,250		77,195	1,923,457
<b>Debt Service:</b>					
Principal				91,518	91,518
Interest				319,234	319,234
<i>Total Disbursements</i>	<u>5,544,897</u>	<u>1,842,250</u>	<u>121,222</u>	<u>1,122,797</u>	<u>8,631,166</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>238,444</u>	<u>(1,842,250)</u>	<u>(88,662)</u>	<u>(125,898)</u>	<u>(1,818,366)</u>
<b>Other Financing Sources and (Uses):</b>					
Transfers In		387,000		53	387,053
Loan Proceeds				77,195	77,195
Proceeds from Sale of Capital Assets	3,360				3,360
Refund of Prior Year Expenditures	10,065				10,065
Transfers Out	(387,053)				(387,053)
<b>Total Other Financing Sources and (Uses)</b>	<u>(373,628)</u>	<u>387,000</u>	<u></u>	<u>77,248</u>	<u>90,620</u>
<i>Net Change in Fund Balances</i>	<u>(135,184)</u>	<u>(1,455,250)</u>	<u>(88,662)</u>	<u>(48,650)</u>	<u>(1,727,746)</u>
Fund Balances at Beginning of Year	2,738,528	1,582,730	575,631	185,795	5,082,684
<i>Fund Balances at End of Year</i>	<u>\$ 2,603,344</u>	<u>\$ 127,480</u>	<u>\$ 486,969</u>	<u>\$ 137,145</u>	<u>\$ 3,354,938</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 1,314,000	\$ 1,224,000	\$ 1,223,880	\$ (120)
Income Tax	500,000	501,800	501,627	(173)
Intergovernmental	3,779,500	3,726,200	3,726,716	516
Interest	15,000	16,500	19,976	3,476
Tuition and Fees	250,900	251,900	259,788	7,888
Rent	500	500	145	(355)
Gifts and Dontations	10,000	10,000	2,763	(7,237)
Miscellaneous	50,000	50,000	13,548	(36,452)
<i>Total Receipts</i>	<u>5,919,900</u>	<u>5,780,900</u>	<u>5,748,443</u>	<u>(32,457)</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	2,752,711	2,754,066	2,546,417	207,649
Special	434,104	583,773	617,734	(33,961)
Vocational	88,667	113,324	115,284	(1,960)
Other	5,050	8,550	3,350	5,200
Support Services:				
Pupils	286,149	286,349	285,978	371
Instructional Staff	252,318	355,677	277,355	78,322
Board of Education	32,310	31,810	22,631	9,179
Administration	527,606	507,174	493,697	13,477
Fiscal	237,167	246,087	252,199	(6,112)
Operation and Maintenance of Plant	394,149	403,649	413,713	(10,064)
Pupil Transportation	312,758	304,803	285,680	19,123
Central	50,500	50,500	35,394	15,106
Operation of Non-Instructional Services	750	750	676	74
Extracurricular Activities	197,960	199,560	163,855	35,705
Capital Outlay		4,012	4,012	
<i>Total Disbursements</i>	<u>5,572,199</u>	<u>5,850,084</u>	<u>5,517,975</u>	<u>332,109</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<u>347,701</u>	<u>(69,184)</u>	<u>230,468</u>	<u>299,652</u>
<b>Other Financing Sources and (Uses):</b>				
Proceeds from Sale of Capital Assets		3,500	3,360	(140)
Refund of Prior Year Expenditures		10,065	10,065	
Transfers Out	(200,000)	(387,053)	(387,053)	
<i>Total Other Financing Sources and (Uses)</i>	<u>(200,000)</u>	<u>(373,488)</u>	<u>(373,628)</u>	<u>(140)</u>
<i>Net Change in Fund Balance</i>	147,701	(442,672)	(143,160)	299,512
Fund Balance at Beginning of Year	2,667,790	2,667,790	2,667,790	
Prior Year Encumbrances Appropriated	12,910	12,910	12,910	
<i>Fund Balance at End of Year</i>	<u>\$ 2,828,401</u>	<u>\$ 2,238,028</u>	<u>\$ 2,537,540</u>	<u>\$ 299,512</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
CLASSROOM FACILITIES MAINTENANCE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 56,300	\$ 17,300	\$ 15,961	\$ (1,339)
Intergovernmental	18,419	17,419	16,599	(820)
<i>Total Receipts</i>	<u>74,719</u>	<u>34,719</u>	<u>32,560</u>	<u>(2,159)</u>
<b>Disbursements:</b>				
Current:				
Support Services:				
Fiscal	1,600	600	375	225
Operation and Maintenance of Plant	110,008	148,208	141,658	6,550
<i>Total Disbursements</i>	<u>111,608</u>	<u>148,808</u>	<u>142,033</u>	<u>6,775</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(36,889)</u>	<u>(114,089)</u>	<u>(109,473)</u>	<u>4,616</u>
 Net Change in Fund Balance	 (36,889)	 (114,089)	 (109,473)	 4,616
 Fund Balance at Beginning of Year	 567,623	 567,623	 567,623	
Prior Year Encumbrances Appropriated	8,008	8,008	8,008	
<i>Fund Balance at End of Year</i>	<u>\$ 538,742</u>	<u>\$ 461,542</u>	<u>\$ 466,158</u>	<u>\$ 4,616</u>

See Accompanying Notes to the Basic Financial Statements

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2018

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>94,514</u>	\$ <u>340,656</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies		\$ <u>340,656</u>
<b>Net Position:</b>		
Held in Trust for Scholarships	\$ <u>94,514</u>	

See Accompanying Notes to the Basic Financial Statements

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
CASH BASIS  
PRIVATE PURPOSE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	\$ <u>273</u>
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	<u>2,500</u>
<i>Change in Net Position</i>	(2,227)
Net Position Beginning of Year	<u>96,741</u>
<i>Net Position End of Year</i>	<u>\$ <u>94,514</u></u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

The District is staffed by 14 classified employees, 37 certified teaching personnel, and 8 administrative employees who provide services to 423 students and other community members.

**The Reporting Entity**

**A. Primary Government**

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

**B. Component Units**

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

**C. Jointly Governed Organizations and Purchasing Pools**

The District is associated with three jointly governed organizations, three insurance pools, and one related organization. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Ohio School Plan, the Northern Buckeye Health Plan Employee Insurance Benefits Program, the Northern Buckeye Health Plan Workers' Compensation Group Rating Plan, and the Normal Memorial Library. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

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

**1. 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.

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

**2. Fund Financial Statements**

During the fiscal 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. 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.

A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of that individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.



**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

**B. 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 are divided into two categories, governmental and fiduciary.

**1. Governmental Funds:**

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other non-exchange transactions as governmental funds. The General Fund, Classroom Facilities Maintenance Fund, and the Building Fund are the District's major governmental funds:

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

Classroom Facilities Maintenance Fund – The Classroom Facilities Maintenance Fund is used to account for tax revenues and expenses for the maintenance of the instructional buildings and grounds.

Building Fund – The Building Fund is used to account for the revenues and expenditures related to capital outlay

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

**2. 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 not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency funds account for various student managed activities.

**C. Basis of Accounting**

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

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

The budgetary process is prescribed by provision of the Ohio Revised Code and entails the preparation of budgetary documents within established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast and debt schedules), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the General Fund and the fund level in all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations below these levels are made by the District's Treasurer.

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

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

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

**E. Cash and Investments**

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2018, investments included negotiable certificate of deposits and money market mutual funds. Investments are reported at cost, except for the money market mutual funds. The District's money market mutual funds are recorded at the amounts reported by State Bank Wealth Management at June 30, 2018.

The Board of Education allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2018 was \$19,976, which includes \$ 3,596 assigned from other District funds.

**F. Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Compensated Absences**

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

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

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

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

**J. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received, and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay expenditure is reported at inception. Lease payments are reported when paid.

**K. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**L. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available. There are no amounts restricted by enabling legislation.

**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 use of the resources in governmental funds. The classifications are as follows:

**Nonspendable** - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

**Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the 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.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

Assigned - Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education or a District official delegated by that authority by resolution or by State Statute. State statute authorizes the District's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

**3. ACCOUNTABILITY AND COMPLIANCE**

**Accountability**

At June 30, 2018, Early Childhood Education, Agricultural Education, and Title I special revenue funds had deficit fund balances of \$20,946, \$2,889, and \$7,651, respectively, resulting from the funds being reimbursement grants. The General Fund provides transfers to cover deficit balances when cash is needed.

**Compliance**

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

**Change in Accounting Principles**

For fiscal year 2018, the District has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*", GASB Statement No. 81 "*Irrevocable Split-Interest Agreements*", GASB Statement No. 85, "*Omnibus 2017*" and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE – (Continued)**

of GASB Statement No. 75 effected the District’s postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

**4. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budgetary Basis presented for the General Fund and Classroom Facilities Maintenance Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a restricted, committed or assigned fund balance (cash basis) and certain funds included in the General Fund as part of the GASB 54 requirements are not included in the budgetary statement.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budget basis statement for the General and Classroom Facilities Maintenance Funds:

<b>Net Change in Fund Balance</b>	<b>General Fund</b>	<b>Classroom Facilities Maintenance Fund</b>
Cash Basis (as reported)	(\$135,184)	(\$88,662)
Outstanding Encumbrances	(8,768)	(20,811)
Perspective Difference:		
Activity of Funds Reclassified for Cash Reporting Purposes	792	
Budgetary Basis	(\$143,160)	(\$109,473)

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**5. DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District Treasury. Active 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 that the Board of Education has identified as not required for use within the current five-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 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 or deposit accounts, including passbook accounts.

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and the term of the agreement must not exceed thirty days;

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the District had \$1,870 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$753,902 of the District's bank balance of \$2,983,645 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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



**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

Investments

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

	<b>Measurement Value</b>	<b>Less Than 12 Months</b>
Negotiable Certificates of Deposit	\$300,000	\$300,000
Money Market Mutual Funds	530,425	530,425
Total Investments	\$830,425	\$830,425

Interest rate risk - Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk – The money market mutual fund carries a rating of Aaa by Moody's. The District has no policy regarding credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated, at the time of purchase, in the highest category by at least one nationally recognized standard rating service.

**6. INCOME TAX**

In 1991, the voters of the Fayette Local School District passed a 1.00 percent continuing school income tax on wages earned by residents of the District. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund.

**7. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes for 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**7. PROPERTY TAXES (Continued)**

Public utility property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Fulton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2018 taxes were collected are:

	<b>2017 Second- Half Collections</b>		<b>2018 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$60,245,970	91%	\$52,759,650	89%
Industrial/Commercial	3,309,720	5%	3,501,020	6%
Public Utility	2,780,550	4%	2,939,760	5%
Total Assessed Value	<u>\$66,336,240</u>	<u>100%</u>	<u>\$59,200,430</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$59.55		\$61.05	

**8. CAPITAL ASSETS**

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

	<b>Balance at 6/30/2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/2018</b>
Governmental Activities				
Land	\$321,608			\$321,608
Construction in Progress	652,814	\$1,863,397	\$645,347	1,870,864
Land Improvements	36,276	5,643		41,919
Buildings and Building Improvements	16,921,453	653,369		17,574,822
Furniture, Fixtures, and Equipment	908,172	211,779	195,198	924,753
Vehicles	603,714	25,952		629,666
Total Capital Assets	<u>\$19,444,037</u>	<u>\$2,760,140</u>	<u>\$840,545</u>	<u>\$21,363,632</u>

**9. TRANSFERS**

During fiscal year 2018, the District transferred \$387,000 to the Building Fund from the General Fund to finance a building project and \$53 to the food service fund to finance current operations.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**10. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with the Ohio School Plan for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

The District joined together with other school districts in Ohio to participate in the Ohio School Plan (the Plan), a public entity insurance purchasing pool (Note 17). Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI), a self-insurance pool, for insurance benefits to employees (Note 17). The District pays monthly premiums to NBHP for the benefits offered to its employees, which includes health, dental, and life insurance. NBHP is responsible for the management and operations of the program. The agreement with NBHP provides for additional assessment to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from NBHP, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Health Plan (NBHP), Northern Division of Optimal Health Initiative (OHI) Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. 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. The Executive Director of the NBHP coordinates the management and administration of the program.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**11. DEFINED PENSION BENEFIT PLANS**

**Net Pension Liability**

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

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

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

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

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

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

Age and service requirements for retirement are as follows:

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

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

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

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

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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$79,079 for fiscal year 2018.

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

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

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.

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

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

The DC Plan allows members to place all their member contributions and 9.5 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later. New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS 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.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$343,396 for fiscal year 2018.

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(Continued)**

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

**Net Pension Liability**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.01741200%	0.02078530%	
Current Measurement Date	<u>0.01795790%</u>	<u>0.02192377%</u>	
Change in Proportionate Share	<u>0.00054590%</u>	<u>0.00113847%</u>	
Proportionate Share of the Net Pension Liability	\$1,072,945	\$5,208,039	\$6,280,984

**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, 2017, are presented below:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**11. DEFINED PENSION BENEFIT PLANS (Continued)**

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

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

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

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

<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	5.0
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.5 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 (7.5 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.



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(Continued)**

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$1,488,969	\$1,072,945	\$724,440

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	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 commences on fifth anniversary of retirement date.

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

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**11. DEFINED PENSION BENEFIT PLANS (Continued)**

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

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

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that 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. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$7,465,546	\$5,208,039	\$3,306,427

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2018, all members of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages.

**12. POSTEMPLOYMENT BENEFIT OPEB PLANS**

**Net OPEB Liability**

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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

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

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**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

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

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

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

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the District's surcharge obligation was \$10,636.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$13,565 for fiscal year 2018.

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**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**Net OPEB Liability**

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability Current Measurement Date	0.01827320%	0.02192377%	
Proportionate Share of the Net OPEB Liability	\$490,405	\$855,385	\$1,345,790

**Actuarial Assumptions - SERS**

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

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

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

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

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

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

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

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

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**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

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

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

**Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
District's proportionate share of the net OPEB liability	\$592,226	\$490,405	\$409,736
	<u>1% Decrease (6.5 % decreasing to 4.0 %)</u>	<u>Current Trend Rate (7.5 % decreasing to 5.0 %)</u>	<u>1% Increase (8.5 % decreasing to 6.0 %)</u>
District's proportionate share of the net OPEB liability	\$397,927	\$490,405	\$612,801

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

**Actuarial Assumptions - STRS**

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

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

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



**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

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

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

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**12. POSTEMPLOYMENT BENEFIT (OPEB) PLANS (Continued)**

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$1,148,340	\$855,385	\$623,854
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$594,285	\$855,385	\$1,199,023

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred fifty days for teachers and two hundred fifty days for all other employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of 62.5 days for teachers and 62.5 days for all other employees.

**B. Health Care Benefits**

The District provides medical, dental, vision, and life insurance to most employees through the OHI Employee Insurance Benefits Program.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**13. OTHER EMPLOYEE BENEFITS (Continued)**

**C. Separation Benefits**

The District provides a separation benefit to eligible certified employees. A full-time employee eligible to retire under the provisions of the State Teachers Retirement System that has five years of service with the District will be paid \$550 for each year served in the first year eligible to retire, if notification of pending retirement is submitted in writing to the Board no later than April 1 for retirement effective at the end of the current school year or prior to the following school year.

**14. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2018, the following changes occurred in obligations reported in the government-wide financial statements:

	<u>Balance at 06/30/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/2018</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
General Obligation Bonds					
2013 Refunding Bonds					
Serial A Bonds	\$620,000			\$620,000	
Term A Bonds	2,990,000			2,990,000	
Capital Appreciation A Bonds	66,458		\$31,518	34,940	\$20,977
Accretion of Capital Appreciation A Bonds	360,440	\$90,111	168,482	282,069	149,187
Term B Bonds	350,000		10,000	340,000	10,000
Capital Appreciation B Bonds	60,000			60,000	
Accretion of Capital Appreciation Bonds	45,000	11,250		56,250	
2017 School Improvement GOB Bonds					
Serial Bonds	1,400,000		50,000	1,350,000	55,000
Bus Loan		77,195	18,733	58,462	25,556
Total General Obligation Bonds	<u>\$5,891,898</u>	<u>\$178,556</u>	<u>\$278,733</u>	<u>\$5,791,721</u>	<u>\$260,720</u>

During fiscal year 2018, the District entered into a loan with the Sherwood State Bank for the purchase of a Blue Bird Bus. The total loan of \$77,195 is to be repaid over three years. Principal and interest payments related to this loan agreement are made from the general fund.

On January 26, 2017, the District issued \$1,400,000 School Improvement Unlimited Tax General Obligation Bonds. The proceeds were used for building construction. The interest rate on the bonds was 1.25 to 4.00 percent. The bonds will mature on December 1, 2036. The bonds will be retired through the Bond Retirement debt service fund.

The School Improvement Unlimited Tax General Obligation Serial Bonds bear interest at the rates below per year and will mature in the principal amounts and on the following dates:

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**14. LONG-TERM OBLIGATIONS (Continued)**

<b>Maturity Date December 1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2018	\$55,000	1.250%
2019	55,000	1.750%
2020	60,000	1.750%
2021	60,000	2.000%
2022	60,000	2.000%
2023	60,000	2.375%
2024	65,000	2.375%
2025	65,000	2.375%
2026	65,000	2.375%
2027	65,000	4.000%
2028	70,000	4.000%
2029	75,000	4.000%
2030	75,000	4.000%
2031	80,000	4.000%
2032	80,000	4.000%
2033	85,000	4.000%
2034	90,000	4.000%
2035	90,000	4.000%
2036	95,000	4.000%

FY 2013 Refunding Bonds - On April 29, 2013, the District issued \$4,399,994 in bonds to refund the 2006 school improvement serial bonds, 2006 general obligation term bonds. The series A bond issue included serial, term, and capital appreciation bonds, in the original amount of \$725,000, \$3,110,000, and \$114,994, respectively. The series B bond issue included term and capital appreciation bonds, in the original amount of \$390,000 and \$60,000, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2035. The bonds will be retired through the Bond Retirement debt service fund.

The Series 2013A Serial Bonds bear interest at the rates below per year and will mature in the principal amounts and on the following dates:

<b>Maturity Date (December 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2020	\$205,000	2.000%
2021	205,000	2.000%
2022	210,000	2.000%

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**14. LONG-TERM OBLIGATIONS (Continued)**

The 2.125% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2023 in the principal amount of \$215,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$225,000) will be paid at stated maturity on December 1, 2024.

The 2.4% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2025 in the principal amount of \$225,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$230,000) will be paid at stated maturity on December 1, 2026.

The 2.625% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2028, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2027 in the principal amount of \$235,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$245,000) will be paid at stated maturity on December 1, 2028.

The 3.25% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2030, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2029 in the principal amount of \$250,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$255,000) will be paid at stated maturity on December 1, 2030.

The 3.125% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2032, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2031 in the principal amount of \$265,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$275,000) will be paid at stated maturity on December 1, 2032.

The 3.25% Series 2013A Current Interest Term Bonds maturing on or after December 1, 2034, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2033 in the principal amount of \$280,000. The remaining principal amount of such Series 2013A Current Interest Term Bonds (\$290,000) will be paid at stated maturity on December 1, 2034.

The 2013 capital appreciation bonds series A were issued in the aggregate original principal amount of \$114,494 and mature on December 1, in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

<u>Maturity Date (December 1)</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>
2018	20,978	200,000
2019	13,962	200,000

The annual accretion of interest was \$90,111. Total accreted interest of \$282,069 has been included in the value. Capital Appreciation Bonds are not subject to redemption prior to maturity.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**14. LONG-TERM OBLIGATIONS (Continued)**

The 2.125% Series 2013B Current Interest Term Bonds maturing on or after December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2018	10,000
2019	10,000

The remaining principal amount of such Series 2013B Current Interest Term Bonds (\$10,000) will be paid at stated maturity on December 1, 2020.

The 3% Series 2013B Current Interest Term Bonds maturing on or after December 1, 2023, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2022 in the principal amount of \$150,000. The remaining principal amount of such Series 2013B Current Interest Term Bonds (\$160,000) will be paid at stated maturity on December 1, 2023.

The 2013 capital appreciation bond series B was issued in the aggregate original principal amount of \$60,000 and mature on December 1, 2020, has an original principal amount of \$60,000 and matures with the accreted value at maturity of \$150,000.

The annual accretion of interest was \$11,250. Total accreted interest of \$56,250 has been included in the value. Capital Appreciation Bonds are not subject to redemption prior to maturity.

The District's overall debt margin was (\$405,220) with an unvoted debt margin of \$739 at June 30, 2018.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Serial</u>	<u>Term</u>	<u>Capital Appreciation</u>	<u>Bus Loan</u>	<u>Interest</u>	<u>Total</u>
2019	\$55,000	\$10,000	\$20,977	\$25,556	\$300,348	\$411,881
2020	55,000	10,000	13,963	26,237	282,328	387,528
2021	265,000	10,000		6,669	145,649	427,318
2022	265,000		60,000		196,539	521,539
2023	270,000	150,000			132,688	552,688
2024-2028	320,000	1,290,000			535,645	2,145,645
2029-2033	380,000	1,290,000			307,403	1,977,403
2034-2037	360,000	570,000			48,087	978,087
Total	<u>\$1,970,000</u>	<u>\$3,330,000</u>	<u>\$94,940</u>	<u>\$58,462</u>	<u>\$1,948,687</u>	<u>\$7,402,089</u>

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**15. SET-ASIDE CALCULATION**

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

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

	<b>Capital Acquisition</b>
Current Year Set-aside Requirement	\$74,092
Current Year Offsets	(32,559)
Qualifying Disbursements	<u>(232,587)</u>
Total	<u><u>(\$191,054)</u></u>

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Governing Council of two representatives from each of the counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2018, the District paid \$37,713 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be attained from Northern Buckeye Education Council, 209 Nolan Parkway, Archbold, Ohio 43502.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Career Center possesses its own budgeting and taxing authority. The degree of control exercised by the District is limited to its representation on the Board. Financial information can be obtained from the Four County Career Center, at 22-900 State Route 34, Archbold, Ohio 43502.

**17. GROUP PURCHASING POOLS**

**A. Ohio School Plan**

The District belongs to the Ohio School Plan (Plan), an unincorporated nonprofit association providing a formalized jointly administered self-insurance risk management program and other administrative services to approximately 273 members.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile, and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65 percent and is less than 80 percent does the Plan contribute to paid claims. (See the Plan's audited financial statements on the website for more details). The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017 (the latest information available):

	<b>2017</b>
Assets	\$11,441,994
Liabilities	\$4,503,476
Members' Equity	\$6,938,518

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, [www.ohioschoolplan.org](http://www.ohioschoolplan.org).

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Health Plan, Northwest Division of Optimal Health Initiatives (OHI), a public entity shared risk pool consisting of educational entities throughout the state. The Pool is governed by OHI and its participating members. The District contributed a total of \$605,150 to Northern Buckeye Health Plan, Northwest Division of OHI for all four plans. Financial information for the period can be obtained from Charlie LeBoeuf, Treasurer, at 201 East 5<sup>th</sup> Street, Suite 2100, Cincinnati, Ohio 45242.



**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**17. GROUP PURCHASING POOLS (Continued)**

**C. Workers' Compensation Group Rating Plan**

The District participates in a group-rating plan for workers' compensation as established under §4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan, Northwest Division of Optimal Health Initiatives (OHI) Workers' Compensation Group Rating Plan (WCGRP) was established as a group purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. The OHI has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

OHI has retained Sheakley UniService as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. During this fiscal year, the District's enrollment fee to WCGRP to cover the costs of administering the program was waived.

**18. RELATED ORGANIZATION**

**Normal Public Library** - The Normal Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fayette Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Normal Memorial Library, 301 North Eagle Street, Fayette, Ohio 43251.

**19. CONTINGENCIES**

**A. Federal and State Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

**B. School Foundation**

District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2018, foundation funding for the District. There is no effect on the financial statements.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

**19. CONTINGENCIES (Continued)**

**C. Litigation**

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

**20. FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

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

<u>Fund Balance</u>	<u>General</u>	<u>Classroom Facilities Maintenance</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Restricted for:					
Athletics				\$25,738	\$25,738
Food Service Operations				20,557	20,557
Facilities Maintenance		\$486,969			486,969
Permanent Improvement				56,758	56,758
Debt Retirement				65,578	65,578
Building Construction			\$127,480		127,480
<b>Total Restricted</b>		<u>486,969</u>	<u>127,480</u>	<u>168,631</u>	<u>783,080</u>
Assigned for:					
Educational Activities	\$26,109				26,109
Unpaid Obligations (encumbrances)	8,768				8,768
<b>Total Assigned</b>	<u>34,877</u>				<u>34,877</u>
Unassigned (deficit)	2,568,467			(31,486)	2,536,981
<b>Total Fund Balances</b>	<u>\$2,603,344</u>	<u>\$486,969</u>	<u>\$127,480</u>	<u>\$137,145</u>	<u>\$3,354,938</u>

**21. RELATED PARTY TRANSACTIONS**

Fred Stockburger, a Board Member, is part owner of Fayette Supermarket, a local grocery store, which the District made various purchases from during fiscal year 2018. The District remitted \$3,350 during fiscal year 2018. The purchases were approved at arm's length, with full knowledge by District officials, of Mr. Stockburger interest, and Mr. Stockburger took no part in the deliberation or decision by District officials with respect to the services.

# OHIO AUDITOR OF STATE KEITH FABER



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

Fayette Local School District  
Fulton County  
400 East Gamble Road  
Fayette, Ohio 43521-9462

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette Local School District, Fulton County, Ohio (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 18, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

### ***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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-002 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

***District's Response to Findings***

The District's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

April 18, 2019

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2018

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

FINDING NUMBER 2018-001

**Noncompliance**

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

**Ohio Admin. Code 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

As a cost savings measure, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumably material, cannot be determined at this time.

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

**Officials' Response:**

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

FINDING NUMBER 2018-002

**Material Weakness – Financial Reporting**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. We identified the following errors for the fiscal year ended June 30, 2018:

- Permanent Improvement fund activity was incorrectly reported with the Classroom Facilities Maintenance fund major fund on the financial statements. The Permanent Improvement fund did not meet the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments" (GASB Cod 2200.159) to be reported as a major fund. The activity of this fund, beginning fund balance, revenues and expenditures of \$21,616, \$70,213 and \$35,071 was adjusted to reporting as Other Governmental funds.

- Classroom Facilities Maintenance fund final budgetary expenditures and estimated receipts were overstated by \$50,530 and \$70,213 on the budgetary statement, respectively. The original budgetary expenditures were understated by \$15,047. The final budget should include all legislatively approved changes to the original budget during the fiscal year and original budget expenditures should be the first complete appropriated budget (GASB Cod 2400.102.)
- The District entered into a loan agreement for a school bus purchase in the amount of \$77,195. The proceeds and capital outlay expenditures were not recorded in the financial statements in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments" (GASB Cod 1800.124).

These errors were not identified and corrected prior to the District preparing its financial report due to deficiencies in the District's internal controls over financial report monitoring. These errors required audit adjustments which were posted to the financial statements. Additional errors were noted in smaller relative amounts.

Sound financial reporting is the responsibility of the Treasurer and Board of Education and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the District's financial statements are complete and accurate, the Board should adopt policies and procedures, including a final review of the statements by the Treasurer, to help identify and correct errors and omissions.

**Officials' Response:**

We did not receive a response from Officials to this finding.



### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS June 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Finding first reported in 2011, Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03 (B) – for not reporting in accordance with generally accepted accounting principles.	Not Corrected and reissued as finding 2018-001 in this report.	Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.
2017-002	Ohio Rev. Code § 5705.10(C) and Material Weakness – for not crediting levy for permanent improvements in a separate fund.	Partially Corrected. Reporting not corrected and reissued as finding 2018-002 in this report.	The levy was not reported correctly. Management is aware and understands the importance of accurate financial reporting and will ensure reporting is accurate.

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# OHIO AUDITOR OF STATE KEITH FABER



**FAYETTE LOCAL SCHOOL DISTRICT**

**FULTON COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 9, 2019**