



FAIRFIELD CITY SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2013

With Independent Auditors' Report



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Fairfield City School District, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 23, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4 through 12 and 48 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairfield City School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013 on our consideration of Fairfield City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Fairfield City School District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 11, 2013

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

The discussion and analysis of Fairfield City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Net position of governmental activities increased \$9,523,122 which represents a 27.1% increase from 2012.
- General revenues accounted for \$78,219,907 in revenue or 84% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,740,965 or 16% of total revenues of \$92,960,872 .
- The District had \$83,437,750 in expenses related to governmental activities; \$14,740,965 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues of \$78,219,907 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2013?" The Government-wide Financial Statements answers this question. These statements include *all assets and liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

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

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

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

Fund Financial Statements

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

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

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

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

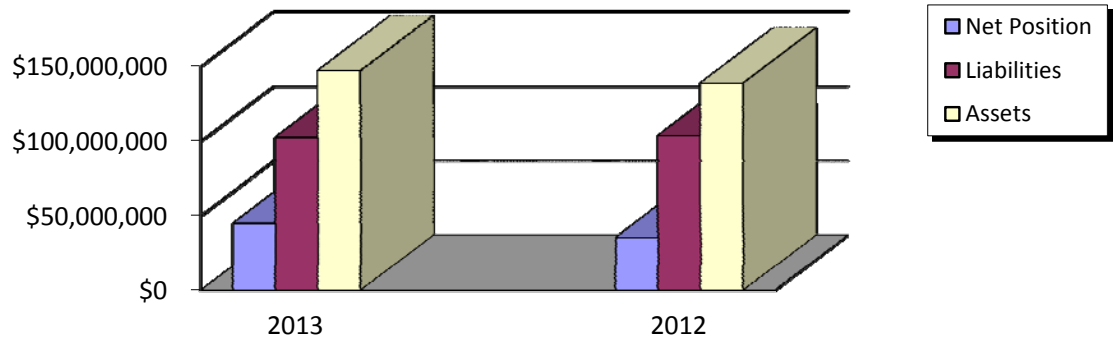
The District as a Whole

As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for fiscal year 2013 compared to fiscal year 2012:

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 1
Net Position

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------------|
| | 2013 | 2012 |
| Assets: | | |
| Current and Other Assets | \$85,995,224 | \$76,757,097 |
| Capital Assets | 61,161,928 | 62,007,435 |
| Total Assets | 147,157,152 | 138,764,532 |
| Liabilities: | | |
| Other Liabilities | 63,053,355 | 63,569,956 |
| Long-Term Liabilities | 39,395,469 | 40,009,370 |
| Total Liabilities | 102,448,824 | 103,579,326 |
| Net Position: | | |
| Net Investment in Capital Assets | 33,323,324 | 33,311,448 |
| Restricted | 1,397,573 | 1,277,164 |
| Unrestricted | 9,987,431 | 596,594 |
| Total Net Position | \$44,708,328 | \$35,185,206 |



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets exceeded liabilities by \$44,708,328.

At year-end, capital assets represented 42% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2013, was \$33,323,324. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

A portion of the District's net position, \$1,397,573 represents resources that are subject to external restriction on how they must be used.

Net position of governmental activities increased \$9,523,122 from 2012 to 2013. Current assets increased from 2012 to 2013 mainly due to an increase in cash and investments received from new debt issuances. Total liabilities decreased from 2012 to 2013 because of a decrease in unearned tax revenue due to property taxes receivable decreasing from 2012 to 2013.

Table 2 shows the changes in net position for fiscal years 2013 and 2012.

Table 2
Changes in Net Position

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2013 | 2012 |
| Revenues: | | |
| Program Revenues | | |
| Charges for Services and Sales | \$5,443,048 | \$4,990,194 |
| Operating Grants and Contributions | 9,297,917 | 9,139,717 |
| General Revenues | | |
| Property Taxes | 47,715,049 | 44,898,610 |
| Grants and Entitlements not Restricted to Specific Programs | 28,220,794 | 28,528,713 |
| Other | 2,284,064 | 2,847,483 |
| Total Revenues | <u>92,960,872</u> | <u>90,404,717</u> |
| Program Expenses | | |
| Instruction | 46,940,159 | 47,460,439 |
| Support Services: | | |
| Pupil and Instructional Staff | 9,466,486 | 9,493,115 |
| School Administrative, General | | |
| Administration, Fiscal and Business | 7,902,968 | 7,919,088 |
| Operations and Maintenance | 5,588,661 | 4,925,127 |
| Pupil Transportation | 5,757,806 | 6,131,857 |
| Central | 117,471 | 131,611 |
| Operation of Non-Instructional Services | 4,851,628 | 5,034,576 |
| Extracurricular Activities | 1,575,357 | 1,535,604 |
| Interest and Fiscal Charges | 1,237,214 | 2,026,033 |
| Total Program Expenses | <u>83,437,750</u> | <u>84,657,450</u> |
| Change in Net Position | 9,523,122 | 5,747,267 |
| Net Position - Beginning of Year | <u>\$35,185,206</u> | <u>\$29,437,939</u> |
| Net Position - End of Year | <u>\$44,708,328</u> | <u>\$35,185,206</u> |

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Of the total governmental activities revenues of \$92,960,872, \$14,740,965 is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the students. Of those general revenues, \$47,715,049 (61%) comes from property tax levies and \$28,220,794 (36%) is from state funding. This District's operations are reliant upon its property tax levy and the state's foundation program.

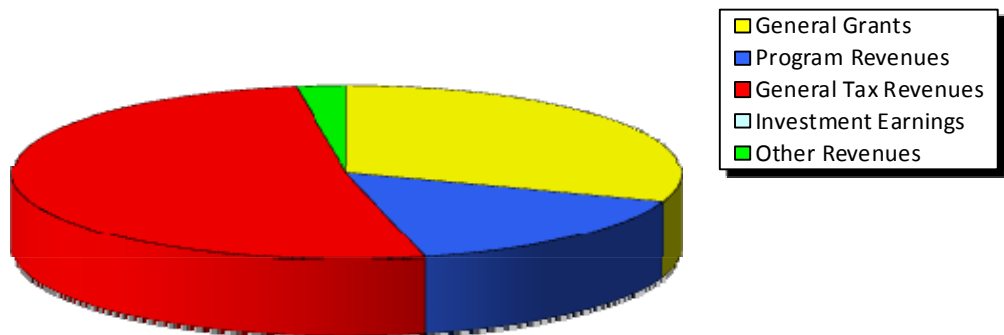
The District revenues are mainly from two sources. Property taxes levied for general and debt service purposes and unrestricted grants and entitlements comprised 82% of the District's revenues for governmental activities.

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

Thus Ohio districts do not collect additional property tax revenue on the increased value of homes that is due to appreciation and must regularly return to the voters to maintain a constant level of service. Property taxes made up 51% of revenue for governmental activities for the District in fiscal year 2013.

Governmental Activities
Revenue Sources

| | | <u>Percentage</u> |
|-----------------------|---------------------|-------------------|
| General Grants | \$28,220,794 | 30.36% |
| Program Revenues | 14,740,965 | 15.86% |
| General Tax Revenues | 47,715,049 | 51.33% |
| Investment Earnings | 12,831 | 0.01% |
| Other Revenues | <u>2,271,233</u> | <u>2.44%</u> |
| Total Revenue Sources | <u>\$92,960,872</u> | <u>100.00%</u> |



Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Instruction comprises 56% of governmental program expenses. Support services expenses were 35% of governmental program expenses. All other program expenses including interest expense were 10%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Property tax revenue increased in 2013 compared to 2012 mainly due to the increase in property tax receipts received during the fiscal year because of the passed levy in November 2012. Investment earnings decreased due to the decline in economy and investment rates available to the District. Instruction, pupil and instructional staff expenses decreased over the prior year due to continued cost cutting efforts by the District.

Governmental Activities

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

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---|------------------------|---------------------|-----------------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Instruction | \$46,940,159 | \$47,460,439 | (\$39,366,651) | (\$40,644,742) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 9,466,486 | 9,493,115 | (8,467,925) | (8,566,716) |
| School Administrative, General | | | | |
| Administration, Fiscal and Business | 7,902,968 | 7,919,088 | (7,613,087) | (7,659,472) |
| Operations and Maintenance | 5,588,661 | 4,925,127 | (5,536,466) | (4,880,725) |
| Pupil Transportation | 5,757,806 | 6,131,857 | (5,492,275) | (5,779,463) |
| Central | 117,471 | 131,611 | (117,471) | (131,611) |
| Operation of Non-Instructional Services | 4,851,628 | 5,034,576 | 318,968 | 238,190 |
| Extracurricular Activities | 1,575,357 | 1,535,604 | (1,184,664) | (1,076,967) |
| Interest and Fiscal Charges | 1,237,214 | 2,026,033 | (1,237,214) | (2,026,033) |
| Total Expenses | <u>\$83,437,750</u> | <u>\$84,657,450</u> | <u>(\$68,696,785)</u> | <u>(\$70,527,539)</u> |

The District's Funds

The District has one major governmental fund: the General Fund. Assets of the general fund comprised \$77,072,253 (89%) of the total \$86,274,208 governmental funds' assets.

General Fund: Fund balance at June 30, 2013 was \$17,948,281, an increase in fund balance of \$10,057,576 from 2012. The primary reason for the increase in fund balance was the increase in taxes revenues (tax monies received because of the levy which passed in November of 2012).

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2013, the District amended its general fund budget at times. The District's budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, the final budgeted revenue was \$78,983,977 and the original budgeted revenue was \$74,809,163. The difference was \$4,173,814. Of this difference, most was due to the levy which passed in November of 2012. The final budgeted expenditures were \$75,670,753 and the original budgeted expenditures were \$69,162,105. The difference was \$6,508,648. Of this difference, most was due to the levy which passed in November of 2012.

The District's final budgeted revenue and expenditures when compared to the actual revenue and expenditures did not have any variances. The District's ending unobligated actual fund balance for the General fund was \$18,796,687.

Capital Assets and Long-Term Obligations

Capital Assets

At the fiscal year end, the District had \$61,161,928 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal year 2013 balances compared to fiscal year 2012:

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

| | Governmental Activities | |
|----------------------------|-------------------------|---------------------|
| | 2013 | 2012 |
| Land | \$3,803,351 | \$3,803,351 |
| Buildings and Improvements | 55,558,419 | 55,932,267 |
| Equipment | 1,800,158 | 2,271,817 |
| Total Net Capital Assets | <u>\$61,161,928</u> | <u>\$62,007,435</u> |

Overall, capital assets decreased due to additions being less than depreciation expense.

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

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Long-Term Obligations

At June 30, 2013, the District had \$32,265,153 in bonds and capital leases outstanding, \$1,494,642 due within one year. Table 5 summarizes bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 2013 | 2012 |
| General Obligation Bonds: | | |
| 1994 School Improvement I | \$1,200,000 | \$1,800,000 |
| 2001 Refund Capital Appreciation Bonds - Principal | 228,100 | 488,130 |
| 2001 Refund Capital Appreciation Bonds - Accreted Interest | 1,866,821 | 3,247,417 |
| 2012 Refunding of 1994 School Improvement Bonds | 20,565,000 | 20,565,000 |
| Premium on 2012 Refunding | 1,444,178 | 1,624,700 |
| 2011 HB 264 Bond | 2,556,785 | 2,690,498 |
| 2011 Cooling Project | 1,324,880 | 1,394,167 |
| Capital Leases | <u>3,079,389</u> | <u>133,492</u> |
| Total Bonds and Capital Lease | <u>\$32,265,153</u> | <u>\$31,943,404</u> |

See notes 7 and 9 in the notes to the basic financial statements for further details on the District's outstanding debt.

For the Future

The Ohio Department of Education explains the school funding model in Ohio as follows:

The funding of K-12 public schools in Ohio is a joint effort between the state and local school districts. Since the 1970s through FY 2009, with the exception of a few years, Ohio's funding formula was foundation based by means of which a per pupil amount determined by the General Assembly as the per-pupil resource for provision of a basic adequate education was multiplied by the number of pupils to determine the base funding of the school districts. From this product, the local share of the basic adequate amount or the charge off was subtracted to arrive at the state share of the base funding. Additional funding was also provided for services targeted to categories of pupils such as handicapped, vocational, gifted, and economically disadvantaged as well as some adjustments and funding guarantees.

The 2010-11 biennial budget (Am. Sub. H.B. 1 of the 128th General Assembly), established a new funding formula called the Evidence-Based Model (EBM). Am. Sub. H.B. 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula for the 2012-13 biennial budget as a new school funding formula is developed. The temporary formula is called the Bridge formula.

Fairfield remains concerned about the instability of the state and local economy and the political ramifications of a new funding model.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the District's Financial Management

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

Fairfield City School District, Ohio
Statement of Net Position
June 30, 2013

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$25,132,733 |
| Restricted Cash and Investments | 203,843 |
| Cash and Cash Equivalents with Fiscal Agent | 2,559,728 |
| Receivables: | |
| Taxes | 54,218,893 |
| Accounts | 562,751 |
| Interest | 9,780 |
| Intergovernmental | 3,044,341 |
| Deferred Bond Issuance Costs | 252,445 |
| Inventory | 10,710 |
| Nondepreciable Capital Assets | 3,803,351 |
| Depreciable Capital Assets, Net | <u>57,358,577</u> |
| Total Assets | <u>147,157,152</u> |
| Liabilities: | |
| Accounts Payable | 1,846,357 |
| Accrued Wages and Benefits | 8,295,046 |
| Accrued Interest Payable | 82,423 |
| Unearned Revenue | 52,719,999 |
| Claims Payable | 109,530 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,932,519 |
| Due In More Than One Year | <u>37,462,950</u> |
| Total Liabilities | <u>102,448,824</u> |
| Net Position: | |
| Net Investment in Capital Assets | 33,323,324 |
| Restricted for: | |
| Local Grants | 15,373 |
| Debt Service | 540,324 |
| Capital Projects | 24,408 |
| Extracurricular | 359,683 |
| State Grants | 750 |
| Federal Grants | 457,035 |
| Unrestricted | <u>9,987,431</u> |
| Total Net Position | <u>\$44,708,328</u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2013

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-----------------------------------|---------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$33,110,112 | \$1,827,621 | \$196,842 | (\$31,085,649) |
| Special | 10,819,955 | 691,805 | 4,530,877 | (5,597,273) |
| Other | 3,010,092 | 0 | 326,363 | (2,683,729) |
| Support Services: | | | | |
| Pupil | 3,839,884 | 123 | 171,477 | (3,668,284) |
| Instructional Staff | 5,626,602 | 474 | 826,487 | (4,799,641) |
| General Administration | 8,649 | 0 | 0 | (8,649) |
| School Administration | 6,287,534 | 0 | 289,881 | (5,997,653) |
| Fiscal | 1,340,958 | 0 | 0 | (1,340,958) |
| Business | 265,827 | 0 | 0 | (265,827) |
| Operations and Maintenance | 5,588,661 | 52,195 | 0 | (5,536,466) |
| Pupil Transportation | 5,757,806 | 346 | 265,185 | (5,492,275) |
| Central | 117,471 | 0 | 0 | (117,471) |
| Operation of Non-Instructional Services | 4,851,628 | 2,479,791 | 2,690,805 | 318,968 |
| Extracurricular Activities | 1,575,357 | 390,693 | 0 | (1,184,664) |
| Interest and Fiscal Charges | 1,237,214 | 0 | 0 | (1,237,214) |
| Total Governmental Activities | \$83,437,750 | \$5,443,048 | \$9,297,917 | (68,696,785) |

| | |
|---|---------------------|
| General Revenues: | |
| Property Taxes Levied for: | |
| General Purposes | 44,151,815 |
| Debt Service Purposes | 3,563,234 |
| Grants and Entitlements not Restricted | 28,220,794 |
| Payment in Lieu of Taxes | 1,826,757 |
| Investment Earnings | 12,831 |
| Other Revenues | 444,476 |
| Total General Revenues | 78,219,907 |
| Change in Net Position | 9,523,122 |
| Net Position - Beginning of Year | 35,185,206 |
| Net Position - End of Year | \$44,708,328 |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Balance Sheet
 Governmental Funds
 June 30, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in Pooled Cash and Investments | \$21,762,279 | \$3,275,268 | \$25,037,547 |
| Restricted Cash and Investments | 203,843 | 0 | 203,843 |
| Cash and Cash Equivalents with Fiscal Agent | 2,559,728 | 0 | 2,559,728 |
| Receivables: | | | |
| Taxes | 50,208,569 | 4,010,324 | 54,218,893 |
| Accounts | 80,909 | 481,842 | 562,751 |
| Interest | 9,677 | 103 | 9,780 |
| Intergovernmental | 1,620,633 | 1,423,708 | 3,044,341 |
| Interfund | 626,615 | 0 | 626,615 |
| Inventory | 0 | 10,710 | 10,710 |
| Total Assets | 77,072,253 | 9,201,955 | 86,274,208 |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Accounts Payable | 1,306,872 | 539,485 | 1,846,357 |
| Accrued Wages and Benefits | 7,606,094 | 688,952 | 8,295,046 |
| Compensated Absences | 238,872 | 18,234 | 257,106 |
| Interfund Payable | 0 | 626,615 | 626,615 |
| Deferred Revenue | 49,972,134 | 4,902,503 | 54,874,637 |
| Total Liabilities | 59,123,972 | 6,775,789 | 65,899,761 |
| Fund Balances: | | | |
| Nonspendable | 0 | 10,710 | 10,710 |
| Restricted | 2,559,728 | 2,615,682 | 5,175,410 |
| Assigned | 1,477,722 | 0 | 1,477,722 |
| Unassigned | 13,910,831 | (200,226) | 13,710,605 |
| Total Fund Balances | 17,948,281 | 2,426,166 | 20,374,447 |
| Total Liabilities and Fund Balances | \$77,072,253 | \$9,201,955 | \$86,274,208 |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2013

| | | |
|--|--------------------|----------------------------|
| Total Governmental Fund Balance | | \$20,374,447 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 61,161,928 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Delinquent Property Taxes | 1,107,078 | |
| Intergovernmental | 587,560 | |
| Other | <u>460,000</u> | |
| | | 2,154,638 |
| An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | (14,344) |
| In the statement of net position interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | (82,423) |
| Some liabilities reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. | | |
| Retro Claim Loss Premium | (356,462) | |
| Compensated Absences | <u>(6,516,748)</u> | |
| | | (6,873,210) |
| Deferred bond issuance cost associated with long-term liabilities are not reported in the funds. | | 252,445 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | <u>(32,265,153)</u> |
| Net Position of Governmental Activities | | <u><u>\$44,708,328</u></u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Taxes | \$44,613,773 | \$3,554,082 | \$48,167,855 |
| Payment in Lieu of Taxes | 1,826,757 | 0 | 1,826,757 |
| Tuition and Fees | 2,487,925 | 0 | 2,487,925 |
| Investment Earnings | 11,747 | 1,084 | 12,831 |
| Intergovernmental | 30,396,059 | 7,134,285 | 37,530,344 |
| Extracurricular Activities | 258,153 | 171,574 | 429,727 |
| Charges for Services | 678,263 | 1,847,133 | 2,525,396 |
| Other Revenues | 344,360 | 220,117 | 564,477 |
| Total Revenues | 80,617,037 | 12,928,275 | 93,545,312 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 32,382,162 | 214,222 | 32,596,384 |
| Special | 8,005,195 | 2,548,974 | 10,554,169 |
| Other | 3,010,092 | 0 | 3,010,092 |
| Support Services: | | | |
| Pupil | 3,739,546 | 199,017 | 3,938,563 |
| Instructional Staff | 4,928,308 | 794,329 | 5,722,637 |
| General Administration | 8,649 | 0 | 8,649 |
| School Administration | 6,109,226 | 287,870 | 6,397,096 |
| Fiscal | 1,309,850 | 22,482 | 1,332,332 |
| Business | 262,218 | 0 | 262,218 |
| Operations and Maintenance | 5,713,801 | 0 | 5,713,801 |
| Pupil Transportation | 5,626,951 | 16,334 | 5,643,285 |
| Central | 113,051 | 0 | 113,051 |
| Operation of Non-Instructional Services | 546,762 | 4,280,946 | 4,827,708 |
| Extracurricular Activities | 1,189,147 | 370,653 | 1,559,800 |
| Capital Outlay | 0 | 649,550 | 649,550 |
| Debt Service: | | | |
| Principal Retirement | 80,904 | 1,162,529 | 1,243,433 |
| Interest and Fiscal Charges | 0 | 2,773,337 | 2,773,337 |
| Total Expenditures | 73,025,862 | 13,320,243 | 86,346,105 |
| Excess of Revenues Over (Under) Expenditures | 7,591,175 | (391,968) | 7,199,207 |
| Other Financing Sources (Uses): | | | |
| Issuance of Capital Leases | 2,559,300 | 567,000 | 3,126,300 |
| Transfers In | 0 | 92,899 | 92,899 |
| Transfers (Out) | (92,899) | 0 | (92,899) |
| Total Other Financing Sources (Uses) | 2,466,401 | 659,899 | 3,126,300 |
| Net Change in Fund Balance | 10,057,576 | 267,931 | 10,325,507 |
| Fund Balance - Beginning of Year | 7,890,705 | 2,158,235 | 10,048,940 |
| Fund Balance - End of Year | \$17,948,281 | \$2,426,166 | \$20,374,447 |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balance - Total Governmental Funds \$10,325,507

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

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

| | | |
|--|-------------|-----------|
| Capital assets used in governmental activities | 993,577 | |
| Depreciation Expense | (1,624,734) | |
| | | (631,157) |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (214,350)

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

| | | |
|---------------------------|-----------|-----------|
| Delinquent Property Taxes | 70,304 | |
| Intergovernmental | (11,634) | |
| Other | (643,110) | |
| | | (584,440) |

Repayment of bond and lease principal and accretion is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,163,403

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 4,007

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

| | | |
|---------------------------------------|-----------|---------|
| Compensated Absences | 882,222 | |
| Workers Compensation Retro Claim Loss | 94,009 | |
| Amortization of Bond Issuance Cost | (29,002) | |
| Amortization of Premium | 180,522 | |
| Accretion of Interest | (539,374) | |
| | | 588,377 |

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (1,925)

Proceeds from capital leases are an other financing source in the funds, but a capital lease issuance increases long-term liabilities in the statement of net position. (3,126,300)

Change in Net Position of Governmental Activities \$9,523,122

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2013

| | <u>Governmental Activities- Internal Service Fund</u> |
|---------------------------------------|---|
| Assets: | |
| Equity in Pooled Cash and Investments | <u>\$95,186</u> |
| Total Assets | <u>95,186</u> |
| Liabilities: | |
| Claims Payable | <u>109,530</u> |
| Total Liabilities | <u>109,530</u> |
| Net Position: | |
| Unrestricted | <u>(14,344)</u> |
| Total Net Position | <u><u>(\$14,344)</u></u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

| | <u>Governmental Activities- Internal Service Fund</u> |
|----------------------------------|---|
| Operating Revenues: | |
| Charges for Services | <u>\$300,000</u> |
| Total Operating Revenues | <u>300,000</u> |
| Operating Expenses: | |
| Claims Expense | <u>301,925</u> |
| Total Operating Expenses | <u>301,925</u> |
| Change in Net Position | (1,925) |
| Net Position - Beginning of Year | <u>(12,419)</u> |
| Net Position - End of Year | <u><u>(\$14,344)</u></u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

| | Governmental Activities- Internal Service Fund |
|--|---|
| Cash Flows from Operating Activities: | |
| Cash Received from Charges | \$300,000 |
| Cash Payments for Claims | <u>(266,992)</u> |
| Net Cash Provided by Operating Activities | <u>33,008</u> |
| Net Increase in Cash and Cash Equivalents | 33,008 |
| Cash and Cash Equivalents Beginning of Year | <u>62,178</u> |
| Cash and Cash Equivalents End of Year | <u><u>95,186</u></u> |
| Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities | |
| Change in Net Position | (1,925) |
| Changes in Assets & Liabilities: | |
| Increase in Claims Payable | <u>34,933</u> |
| Net Cash Provided by Operating Activities | <u><u>\$33,008</u></u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | Private Purpose Trust | Agency |
|---------------------------------------|--------------------------|-------------------|
| | <u> </u> | <u> </u> |
| Assets: | | |
| Equity in Pooled Cash and Investments | \$8,517 | \$306,178 |
| Receivables: | | |
| Accounts | 87 | 102 |
| Interest | <u>1</u> | <u>0</u> |
| Total Assets | <u>8,605</u> | <u>306,280</u> |
| Liabilities: | | |
| Accounts Payable | 0 | 29,605 |
| Other Liabilities | <u>0</u> | <u>276,675</u> |
| Total Liabilities | <u>0</u> | <u>\$306,280</u> |
| Net Position: | | |
| Held in Trust | <u>8,605</u> | |
| Total Net Position | <u>\$8,605</u> | |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2013

| | Private Purpose Trust |
|----------------------------------|--------------------------|
| Additions: | |
| Investment Earnings | \$12 |
| Other | 1,973 |
| Total Additions | <u>1,985</u> |
| Deductions: | |
| Other | <u>1,635</u> |
| Total Deductions | <u>1,635</u> |
| Change in Net Position | 350 |
| Net Position - Beginning of Year | <u>8,255</u> |
| Net Position - End of Year | <u><u>\$8,605</u></u> |

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the District

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

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by approximately 417 non-certificated personnel and approximately 603 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District is the 19th largest in the State of Ohio (among 613 Districts) in terms of enrollment (ADM) and the 2nd largest in Butler County. It currently operates 5 elementary schools (serving grades Preschool - 4), 1 intermediate school (serving grades 5-6), 1 middle school (serving grades 7 - 8), 1 freshman school (serving grade 9), and 1 comprehensive high school (serving grades 10 - 12). The District services an area of 38 square miles.

Reporting Entity

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

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

Note 2 - Summary of Significant Accounting Policies

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Fund Accounting

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

Governmental Funds

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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

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

Equity in Pooled Cash and Investments

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

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2013 credited to the General Fund amounted to \$11,747 and \$1,084 credited to Other Governmental Funds.

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

Inventory

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

Inventory consists of donated food.

Capital Assets

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

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

Compensated Absences

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

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

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

| | | | |
|-------------------------|---|---|---|
| <u>Sick Leave</u> | | | |
| How Earned | 1 1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) |
| Maximum Accumulation | 330 days according to bargaining agreements | 360 days | 330 days according to bargaining agreements |
| Vested | As Earned | As Earned | As Earned |
| Termination Entitlement | Per Contract | Per Contract | Per Contract |

Net position

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$1,397,573 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Fund Balance

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

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

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

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

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

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

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Restricted Assets

Restricted assets in the general fund represent equity in pooled cash and investments set aside to establish a budget stabilization reserve as well as capital lease proceeds not spent.

Note 3 - Equity in Pooled Cash and Investments

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2013, \$20,774,876 of the District's bank balance of \$21,274,876 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2013, the District had the following investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|--|--------------------|--|
| Money Market Funds | \$10,988 | 0.00 |
| Federal Home Loan Bank | 1,575,631 | 0.32 |
| Federal National Mortgage Association | 2,248,230 | 2.57 |
| Federal Home Loan Mortgage | 2,370,938 | 2.09 |
| Federal Home Loan Bank - Discount Note | 364,941 | 0.32 |
| US Treasury Notes | 635,422 | 0.83 |
| | <u>\$7,206,150</u> | |
| Portfolio Weighted Average Maturity | | 1.65 |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested less than 1% of the District’s investments in Money Market Funds, 22% in Federal Home Loan Bank, 31% in Federal National Mortgage Association, 33% in Federal Home Loan Mortgage, 5% in Federal Home Loan Bank - Discount Note, and 9% in U.S. Treasury Notes.

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

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Butler County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available for advance can vary based on the date the tax bills are sent.

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2013. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2013 on the fund statements. The entire amount of delinquent taxes receivable is recognized as a revenue on the government-wide financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2013, was \$1,857,068 for General Fund, \$155,381 for Other Governmental Funds, and is recognized as revenue.

The assessed value, by property classification, upon which taxes collected in 2013 were based as follows:

| | <u>Amount</u> |
|----------------|-------------------------------|
| Public Utility | \$38,587,440 |
| Real Estate | <u>1,317,616,750</u> |
| Total | <u><u>\$1,356,204,190</u></u> |

Note 5 – Receivables

Receivables at June 30, 2013, consisted of taxes, accounts (rent and student fees), intergovernmental, interest and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

| | |
|----------------------------------|---------------------------|
| Governmental Funds: | |
| General Fund | <u>\$1,620,633</u> |
| Other Governmental Funds: | |
| School Security | 13,379 |
| Title VI B Pre-School | 438,115 |
| Title III | 107,561 |
| Title I | 644,293 |
| Race to the Top | 84,661 |
| Pre-School Disabilities | 13,363 |
| Title II-A | 79,799 |
| Miscellaneous Federal | 41,960 |
| Title I School Improvement | <u>577</u> |
| Total | <u><u>\$3,044,341</u></u> |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|--------------------|------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$3,803,351 | \$0 | \$0 | \$3,803,351 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 73,752,998 | 566,750 | 0 | 74,319,748 |
| Equipment | 22,922,327 | 426,827 | 1,583,743 | 21,765,411 |
| Totals at Historical Cost | <u>100,478,676</u> | <u>993,577</u> | <u>1,583,743</u> | <u>99,888,510</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 17,820,731 | 940,598 | 0 | 18,761,329 |
| Equipment | 20,650,510 | 684,136 | 1,369,393 | 19,965,253 |
| Total Accumulated Depreciation | <u>38,471,241</u> | <u>1,624,734</u> | <u>1,369,393</u> | <u>38,726,582</u> |
| Governmental Activities Capital Assets, Net | <u>\$62,007,435</u> | <u>(\$631,157)</u> | <u>\$214,350</u> | <u>\$61,161,928</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|--------------------|
| Instruction: | |
| Regular | \$695,346 |
| Special | 145,953 |
| Other | 329,436 |
| Support Services: | |
| Pupil | 55,527 |
| Instructional Staff | 32,609 |
| School Administration | 19,288 |
| Fiscal | 2,423 |
| Business | 4,092 |
| Operations and Maintenance | 83,461 |
| Pupil Transportation | 170,947 |
| Central | 4,420 |
| Operation of Non-Instructional Services | 66,333 |
| Extracurricular Activities | 14,899 |
| Total Depreciation Expense | <u>\$1,624,734</u> |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 7 - Long-Term Liabilities

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

| | Interest Rate | Beginning Balance | Issued | Retired | Ending Balance | Due In One Year |
|---|---------------|-------------------|-------------|-------------|----------------|-----------------|
| Governmental Activities: | | | | | | |
| Bonds: | | | | | | |
| 1994 School Improvement I | 7.3157% | \$1,800,000 | \$0 | \$600,000 | \$1,200,000 | \$600,000 |
| 2001 School Improvement | | | | | | |
| Principal | 4.65-4.85% | 488,130 | 0 | 260,030 | 228,100 | 228,100 |
| Accreted Interest | | 3,247,417 | 539,374 | 1,919,970 | 1,866,821 | 0 |
| 2012 Refunding of 1994 School Improvement Bonds | 1.5-5.0% | 20,565,000 | 0 | 0 | 20,565,000 | 0 |
| Premium on 2012 Refunding | | 1,624,700 | 0 | 180,522 | 1,444,178 | 0 |
| 2011 HB 264 Bond | 5.3800% | 2,690,498 | 0 | 133,713 | 2,556,785 | 179,820 |
| 2011 Cooling Project | 0.9000% | 1,394,167 | 0 | 69,287 | 1,324,880 | 93,180 |
| Total Bonds | | 31,809,912 | 539,374 | 3,163,522 | 29,185,764 | 1,101,100 |
| Capital Leases | | 133,492 | 3,126,300 | 180,403 | 3,079,389 | 393,542 |
| Total Long Term Debt | | 31,943,404 | 3,665,674 | 3,343,925 | 32,265,153 | 1,494,642 |
| Compensated Absences | | 7,615,495 | 142,524 | 984,165 | 6,773,854 | 353,877 |
| Retro Claim Loss Premium | | 450,471 | 0 | 94,009 | 356,462 | 84,000 |
| Total Governmental Activities | | \$40,009,370 | \$3,808,198 | \$4,422,099 | \$39,395,469 | \$1,932,519 |

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

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

| Fiscal Year Ending June 30 | General Obligation Bonds | | | Capital Appreciation Bonds | | |
|-------------------------------|--------------------------|-------------|--------------|----------------------------|-------------|-------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2014 | \$873,000 | \$964,200 | \$1,837,200 | \$228,100 | \$1,866,821 | \$2,094,921 |
| 2015 | 3,180,000 | 879,955 | 4,059,955 | 0 | 0 | 0 |
| 2016 | 3,035,665 | 775,278 | 3,810,943 | 0 | 0 | 0 |
| 2017 | 3,140,000 | 683,805 | 3,823,805 | 0 | 0 | 0 |
| 2018 | 3,235,000 | 578,865 | 3,813,865 | 0 | 0 | 0 |
| 2019-2023 | 11,262,000 | 1,080,104 | 12,342,104 | 0 | 0 | 0 |
| 2024-2026 | 921,000 | 74,433 | 995,433 | 0 | 0 | 0 |
| Total | \$25,646,665 | \$5,036,640 | \$30,683,305 | \$228,100 | \$1,866,821 | \$2,094,921 |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 8 - Prior Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statements. On June 30, 2013, \$28.295 million of bonds outstanding are considered defeased.

Note 9 - Capital Leases

The District in prior years has entered into a capital lease for copiers. In the current year the District entered into capital leases for stadium turf and buses.

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

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

| Fiscal Year Ending June 30 | Principal |
|---|---------------------------|
| 2014 | \$462,138 |
| 2015 | 409,553 |
| 2016 | 409,551 |
| 2017 | 409,550 |
| 2018 | 299,834 |
| 2019-2023 | <u>1,449,299</u> |
| Total Minimum Lease Payments | \$3,439,925 |
| Amount Representing Interest | <u>(360,536)</u> |
| Present Value of Minimum Lease Payments | <u><u>\$3,079,389</u></u> |

Capital assets acquired under capital leases are as follows:

| | |
|--------------|-----------|
| Equipment | \$404,520 |
| Stadium turf | 567,000 |

Capital assets that will be acquired in fiscal year 2014 under capital leases are as follows:

| | |
|----------|-------------|
| Vehicles | \$2,559,300 |
|----------|-------------|

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 10 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2013, 2012, and 2011 were \$1,912,008, \$2,045,640, and \$2,302,656, respectively; contributions equaled the required contributions for each year.

State Teachers Retirement System of Ohio

Plan Description

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2013, 2012, and 2011 were \$4,927,200, \$5,362,812, and \$5,687,592, respectively; 84% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

Note 11- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was .74%. District contributions for the years ended June 30, 2013, 2012 and 2011 were \$101,063, \$109,588, and \$125,001, respectively, which equaled the required contributions each year.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2013, the health care allocation was .16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were \$21,852, \$80,364, and \$235,200, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2013, 2012, and 2011 were \$351,943, \$383,058, and \$406,257, 84% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

Note 12 - Contingent Liabilities

Grants

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2013.

Litigation

The District is not currently involved in any lawsuits. District management estimates that all other potential claims, not covered by insurance of the District, resulting from all other litigation would not materially affect the financial statements of the District.

Note 13 - Risk Management

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

General liability is protected by Ohio Casualty with \$1,000,000 each occurrence, \$2,000,000 aggregate limit. Vehicles are covered by Ohio Casualty with a \$500 deductible. Public officials bond insurance is provided by Brower Insurance Company. The Treasurer is covered by a bond in the amount of \$20,000. The District has elected to provide employee medical and dental benefits through Butler Health Plan. The employees share the cost of the monthly premium for the coverage with the Board.

There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Beginning in January 2011, the District began to self-insure its workers' compensation costs. Expenses for claims are recorded on the current basis based on an actuarially determined charge per employee. The District accounts for the activities of this program in an internal service fund in accordance with GASB Statement No. 10. A summary of the changes in self-insurance workers' compensation claims liability is as follows:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------------|------------------|------------------|
| Claims Liability at Beginning of Year | \$74,597 | \$34,492 |
| Claims Incurred | 301,925 | 317,028 |
| Claims Paid | <u>(266,992)</u> | <u>(276,923)</u> |
| Claims Liability at End of Year | <u>\$109,530</u> | <u>\$74,597</u> |

Note 14 - Jointly Governed Organizations

Southwestern Ohio Computer Association

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

Butler Technology and Career Development Schools

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

Note 15 – Accountability

The following funds had a deficit in fund balance:

| | |
|------------------------------------|---------|
| <u>Other Governmental Funds:</u> | |
| School Security | \$4,407 |
| Title VI B Pre-School | 87,939 |
| Race to the Top | 5,355 |
| Pre-School Disabilities | 2,208 |
| Extracurricular Student Activities | 100,317 |

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Statutory Reserves

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

For fiscal year ended June 30, 2013, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

| | Capital Acquisition | Budget Stabilization |
|---|------------------------|-------------------------|
| Set Aside Reserve Balance as of June 30, 2012 | \$0 | \$203,843 |
| Current Year Set Aside Requirements | 1,658,019 | 0 |
| Qualified Disbursements | (1,276,144) | 0 |
| Current Year Offsets | (381,875) * | 0 |
| Set Aside Reserve Balance as of June 30, 2013 | <u>\$0</u> | <u>\$203,843</u> |
| Restricted Cash as of June 30, 2013 | <u>\$0</u> | <u>\$203,843</u> |

* - is a carryforward from prior years that can be used as the eligible amount to be used as a current year offsets. \$59,237 was used as the eligible offset for FY09, \$0 for FY10, \$131,981 for FY11, \$345,672 for FY12, \$381,875 for FY13. \$29,445,431 will be the offset carryforward for FY14.

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

Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the Act. As of June 30, 2013, the Board had not acted on the Senate Bill requirements to eliminate the reserve balance.

Note 17 - Interfund Transactions

Interfund transactions at June 30, 2013, consisted of the following interfund receivables and interfund payables and transfers in and transfers out:

| | Interfund | | Transfers | |
|--------------------------|------------------|------------------|-----------------|-----------------|
| | Receivable | Payable | In | Out |
| General Fund | \$626,615 | \$0 | \$0 | \$92,899 |
| Other Governmental Funds | 0 | 626,615 | 92,899 | 0 |
| Total All Funds | <u>\$626,615</u> | <u>\$626,615</u> | <u>\$92,899</u> | <u>\$92,899</u> |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

Note 18 – Fund Balances

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

| Fund Balances | General | Other Governmental Funds | Total |
|------------------------------------|--------------|--------------------------------|--------------|
| Nonspendable: | | | |
| Inventory | \$0 | \$10,710 | \$10,710 |
| Total Nonspendable | 0 | 10,710 | 10,710 |
| Restricted for: | | | |
| Unspent Proceeds of Capital Lease | 2,559,728 | 0 | 2,559,728 |
| Spring Recognition | 0 | 15,373 | 15,373 |
| Auxiliary Services | 0 | 40,171 | 40,171 |
| SchoolNet Professional Development | 0 | 63 | 63 |
| Title III | 0 | 2,490 | 2,490 |
| Title I | 0 | 3,812 | 3,812 |
| Title II-A | 0 | 3,635 | 3,635 |
| Food Service | 0 | 86,522 | 86,522 |
| Debt Service | 0 | 2,422,244 | 2,422,244 |
| Permanent Improvement | 0 | 24,408 | 24,408 |
| Miscellaneous Federal Grants | 0 | 16,964 | 16,964 |
| Total Restricted | 2,559,728 | 2,615,682 | 5,175,410 |
| Assigned to: | | | |
| Public School Support | 329,781 | 0 | 329,781 |
| Encumbrances | 1,147,941 | 0 | 1,147,941 |
| Total Assigned | 1,477,722 | 0 | 1,477,722 |
| Unassigned (Deficit) | 13,910,831 | (200,226) | 13,710,605 |
| Total Fund Balance | \$17,948,281 | \$2,426,166 | \$20,374,447 |

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 19 – Change in Accounting Principles

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and net position.

Fairfield City School District, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2013

| | General Fund | | | |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Taxes | \$41,902,767 | \$44,241,200 | \$44,241,200 | \$0 |
| Payments in lieu of taxes | 1,730,201 | 1,826,757 | 1,826,757 | 0 |
| Tuition and Fees | 1,856,329 | 1,959,924 | 1,959,924 | 0 |
| Investment Earnings | 86,238 | 91,051 | 91,051 | 0 |
| Intergovernmental | 28,786,493 | 30,392,957 | 30,392,957 | 0 |
| Extracurricular Activities | 159,619 | 168,527 | 168,527 | 0 |
| Other Revenues | 287,516 | 303,561 | 303,561 | 0 |
| Total Revenues | 74,809,163 | 78,983,977 | 78,983,977 | 0 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 29,666,056 | 32,457,844 | 32,457,844 | 0 |
| Special | 7,541,960 | 8,251,712 | 8,251,712 | 0 |
| Other | 2,779,172 | 3,040,712 | 3,040,712 | 0 |
| Support Services: | | | | |
| Pupil | 3,086,873 | 3,377,370 | 3,377,370 | 0 |
| Instructional Staff | 4,656,770 | 5,095,005 | 5,095,005 | 0 |
| General Administration | 8,090 | 8,851 | 8,851 | 0 |
| School Administration | 5,595,005 | 6,121,535 | 6,121,535 | 0 |
| Fiscal | 1,204,143 | 1,317,461 | 1,317,461 | 0 |
| Business | 247,519 | 270,812 | 270,812 | 0 |
| Operations and Maintenance | 5,487,457 | 6,003,866 | 6,003,866 | 0 |
| Pupil Transportation | 7,671,306 | 8,393,231 | 8,393,231 | 0 |
| Central | 110,730 | 121,151 | 121,151 | 0 |
| Extracurricular Activities | 1,107,024 | 1,211,203 | 1,211,203 | 0 |
| Total Expenditures | 69,162,105 | 75,670,753 | 75,670,753 | 0 |
| Excess of Revenues Over (Under) Expenditures | 5,647,058 | 3,313,224 | 3,313,224 | 0 |
| Other Financing Sources (Uses): | | | | |
| Issuance of Capital Leases | 2,424,024 | 2,559,300 | 2,559,300 | 0 |
| Advances In | 402,504 | 424,966 | 424,966 | 0 |
| Advances (Out) | (640,675) | (700,967) | (700,967) | 0 |
| Transfers In | 87,989 | 92,899 | 92,899 | 0 |
| Transfers (Out) | (169,817) | (185,798) | (185,798) | 0 |
| Total Other Financing Sources (Uses) | 2,104,025 | 2,190,400 | 2,190,400 | 0 |
| Net Change in Fund Balance | 7,751,083 | 5,503,624 | 5,503,624 | 0 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 13,293,063 | 13,293,063 | 13,293,063 | 0 |
| Fund Balance End of Year | \$21,044,146 | \$18,796,687 | \$18,796,687 | \$0 |

See accompanying notes to the required supplementary information.

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2013

Note 1 - Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. During the course of fiscal 2013, the District amended its budget at several times.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2013.

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types (GAAP basis).

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2013

4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

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

Net Change in Fund Balance

| | <u>General</u> |
|--------------------------|----------------|
| GAAP Basis | \$10,057,576 |
| Revenue Accruals | (1,633,060) |
| Expenditure Accruals | 2,091,396 |
| Transfers In | 92,899 |
| Transfers Out | (92,899) |
| Advances In | 424,966 |
| Advances Out | (700,967) |
| Encumbrances | (4,682,445) |
| Funds Budgeted Elsewhere | (53,842) |
| Budget Basis | \$5,503,624 |

Fairfield City School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

| <u>Federal Grantor/Program Title</u> | <u>Pass-Through Entity Number</u> | <u>Federal CFDA Number</u> | <u>Federal Revenues</u> | <u>Federal Expenditures</u> |
|---|---|------------------------------------|-----------------------------|---------------------------------|
| <u>U.S. Department of Agriculture:</u> <i>(Passed through Ohio Department of Education)</i> | | | | |
| Nutrition Cluster: | | | | |
| <i>Non-Cash Assistance (Food Distribution):</i> | | | | |
| National School Lunch Program | n/a | 10.555 | \$ 169,420 | 169,420 |
| <i>Cash Assistance:</i> | | | | |
| School Breakfast Program | 05PU-2013 | 10.553 | 268,656 | 268,656 |
| National School Lunch Program | LLP4-2013 | 10.555 | <u>1,273,943</u> | <u>1,273,943</u> |
| <i>Cash Assistance Subtotal</i> | | | <u>1,542,599</u> | <u>1,542,599</u> |
| Nutrition Cluster Total | | | <u>1,712,019</u> | <u>1,712,019</u> |
| Total U.S. Department of Agriculture | | | <u>1,712,019</u> | <u>1,712,019</u> |
| <u>U.S. Department of Education:</u> <i>(Passed through Ohio Department of Education)</i> | | | | |
| Title I, Part A Cluster: | | | | |
| Title I Grants to Local Educational Agencies (Title I Neglected) | 2013 | 84.010 | 19,387 | 22,181 |
| Title I Grants to Local Educational Agencies (Title I Neglected) | 2012 | 84.010 | 6,023 | 4,412 |
| ARRA - Title I Grants to Local Educational Agencies | C1S1-2013 | 84.389 | 2,173 | 2,750 |
| ARRA - Title I Grants to Local Educational Agencies | C1S1-2012 | 84.389 | 18,799 | 7,293 |
| Title I Grants to Local Educational Agencies | C1S1-2013 | 84.010 | 967,172 | 989,182 |
| Title I Grants to Local Educational Agencies | C1S1-2012 | 84.010 | <u>216,105</u> | <u>161,737</u> |
| | | | <u>1,229,659</u> | <u>1,187,555</u> |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 6BSF-2013 | 84.027 | 1,624,985 | 1,652,013 |
| Special Education - Grants to States | 6BSF-2012 | 84.027 | 354,256 | 316,969 |
| Special Education - Preschool Grants | PGS1-2013 | 84.173 | 14,491 | 16,645 |
| Special Education - Preschool Grants | PGS1-2012 | 84.173 | <u>7,148</u> | <u>3,210</u> |
| | | | <u>2,000,880</u> | <u>1,988,837</u> |
| Safe and Drug-Free Schools and Communities | | | | |
| Safe and Drug-Free Schools and Communities | DRS1-2013 | 84.186 | 87,640 | 88,013 |
| Safe and Drug-Free Schools and Communities | DRS1-2012 | 84.186 | <u>38,992</u> | <u>38,992</u> |
| | | | <u>126,632</u> | <u>127,005</u> |
| English Language Acquisition Grants | | | | |
| English Language Acquisition Grants | T3S1/T3S2-2013 | 84.365 | 73,316 | 115,935 |
| English Language Acquisition Grants | T3S1/T3S2-2012 | 84.365 | <u>35,122</u> | <u>1,446</u> |
| | | | <u>108,438</u> | <u>117,381</u> |
| Improving Teacher Quality State Grants | | | | |
| Improving Teacher Quality State Grants | TRS1-2013 | 84.367 | 133,033 | 147,382 |
| Improving Teacher Quality State Grants | TRS1-2012 | 84.367 | <u>55,857</u> | <u>37,818</u> |
| | | | <u>188,890</u> | <u>185,200</u> |
| ARRA - Education Technology State Grants | | | | |
| ARRA - Education Technology State Grants | n/a | 84.386 | <u>9,563</u> | <u>9,556</u> |
| ARRA - Race to the Top | | | | |
| ARRA - Race to the Top | 2012 | 84.395A | 12,141 | 9,276 |
| ARRA - Race to the Top | 2013 | 84.395A | <u>151,674</u> | <u>174,734</u> |
| | | | <u>163,815</u> | <u>184,010</u> |
| Total U.S. Department of Education | | | <u>3,827,877</u> | <u>3,799,544</u> |
| Total Federal Awards | | | \$ <u>5,539,896</u> | <u>5,511,563</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

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

NOTE C - NUTRITION CLUSTER

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District ("School District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 11, 2013

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

Report on Compliance for Each Major Federal Program

We have audited Fairfield City School District's ("School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2013. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 11, 2013

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

| | |
|--|------------|
| Internal Control over major programs: | |
| • Material weakness(es) identified? | none |
| • Significant deficiency(ies) identified not considered to be material weaknesses? | none |
| Type of auditors' report issued on compliance for major programs: | unmodified |
| Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? | none |
| Identification of major programs: | |
| <i>Special Education Cluster:</i> | |
| <i>CFDA 84.027 – Special Education – Grants to States</i> | |
| <i>CFDA 84.173 – Special Education – Preschool Grants</i> | |
| <i>CFDA 84.395A – ARRA - Race to the Top Program</i> | |
| Dollar threshold to distinguish between Type A and Type B Programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | yes |

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Schedule of Prior Audit Findings

None

Independent Accountants' Report on Applying Agreed-Upon Procedure

Fairfield City School District
4641 Bach Lane
Fairfield, Ohio 45014

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Fairfield City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy on October 18, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or through "activities engaged in via computer and/or electronic communications devices".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 11, 2013

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Dave Yost • Auditor of State

FAIRFIELD CITY SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 4, 2014**