



Dave Yost • Auditor of State

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountant's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – June 30, 2012	13
Statement of Activities – For the Fiscal Year Ended June 30, 2012	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds – June 30, 2012	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2012	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – For the Fiscal Year Ended June 30, 2012	17
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, 2012	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund For the Fiscal Year Ended June 30, 2012	19
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund – For the Fiscal Year Ended June 30, 2012	20
Notes to the Basic Financial Statements	21
Federal Awards Receipts and Expenditures Schedule For the Fiscal Year Ended June 30, 2012	51
Notes to the Federal Awards Receipts and Expenditures Schedule For the Fiscal Year Ended June 30, 2012	52
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	55
Schedule of Findings.....	57

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairborn City School District, Greene County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 21 to the financial statements, on January 14, 2013, the Ohio Department of Education placed the District under fiscal caution. Note 22 describes Management's plan regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairborn City School District, Greene County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 22, 2013

**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

The discussion and analysis of Fairborn City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- Net assets of governmental activities increased \$139,857 from 2011.
- General revenues accounted for \$41,134,572 in revenue or 84.3% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,659,050 or 15.7% of total revenues of \$48,793,622 .
- The District had \$48,653,765 in expenses related to governmental activities; \$7,659,050 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$41,134,572 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 Assets* 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.

**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

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 question, "How did we do financially during 2012?" The Government-wide Financial Statements answer 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.

These two statements report the District's *net assets* and changes in those assets. This change in net assets 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, 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 is presented in the Fund Financial Statements (see Table of Contents). 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 Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

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.

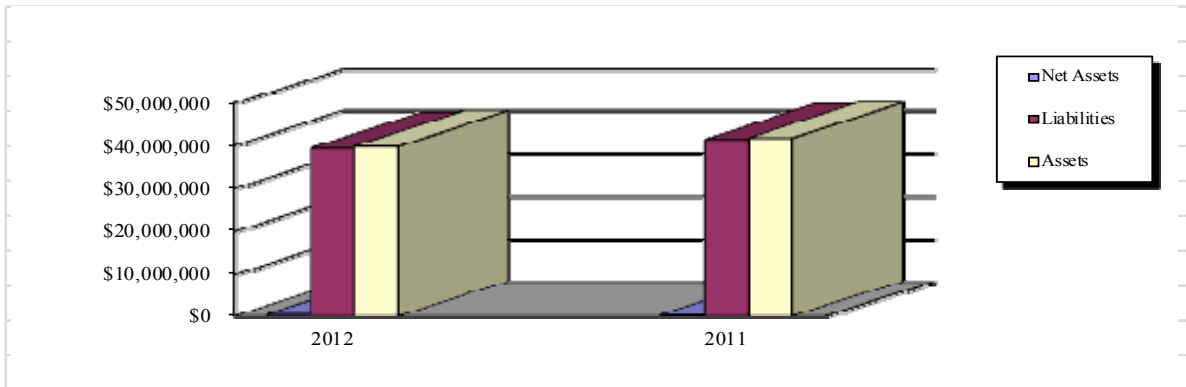
**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

The District as a Whole

As stated previously, the Statement of Net Assets looks at the District as a whole. Table 1 provides a summary of the District's net assets for 2012 compared to 2011:

**Table 1
Net Assets**

	Governmental Activities	
	2012	2011
Assets:		
Current and Other Assets	\$27,779,479	\$28,705,003
Capital Assets	12,064,005	13,036,392
Total Assets	39,843,484	41,741,395
Liabilities:		
Other Liabilities	19,727,376	21,021,594
Long-Term Liabilities	19,662,179	20,405,729
Total Liabilities	39,389,555	41,427,323
Net Assets:		
Invested in Capital Assets, Net of Related Debt	(3,312,870)	(3,350,609)
Restricted	3,002,788	3,523,017
Unrestricted	764,011	141,664
Total Net Assets	\$453,929	\$314,072



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$453,929 .

**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

At year-end, capital assets represented 30% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, was \$(3,312,870). These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,002,788 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current assets decreased due to a decrease in intergovernmental receivable, which was mainly due to a decrease in grants receipts in fiscal year 2012 as compared to 2011. Long term liabilities decreased mainly due to principal and interest payments being made on long term debt during the fiscal year.

Table 2 shows the changes in net assets for fiscal years 2012 and 2011.

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**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

**Table 2
Changes in Net Assets**

	Governmental Activities	
	2012	2011
Revenues:		
Program Revenues		
Charges for Services	\$1,594,723	\$1,609,218
Operating Grants, Contributions	6,064,327	8,450,506
General Revenues:		
Income Taxes	3,478,808	2,865,953
Property Taxes	17,997,257	18,156,285
Grants and Entitlements	19,057,334	19,446,496
Other	601,173	525,454
Total Revenues	48,793,622	51,053,912
Program Expenses:		
Instruction	28,820,698	30,599,043
Support Services:		
Pupil and Instructional Staff	4,858,948	5,646,576
School Administrative, General		
Administration, Fiscal and Business	4,390,728	4,365,416
Operations and Maintenance	3,788,308	3,731,456
Pupil Transportation	2,812,606	2,343,773
Central	443,363	443,172
Operation of Non-Instructional Services	1,836,826	1,669,831
Extracurricular Activities	816,457	719,144
Interest and Fiscal Charges	885,831	1,160,884
Total Program Expenses	48,653,765	50,679,295
Change in Net Assets	139,857	374,617
Net Assets Beginning of Year	\$314,072	(\$60,545)
Net Assets End of Year	\$453,929	\$314,072

The District revenues came from mainly two sources. Property taxes levied for general and debt service purposes, as well as grants and entitlements comprised 76% of the District's revenues for governmental activities.

**Fairborn City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2012
 (Unaudited)**

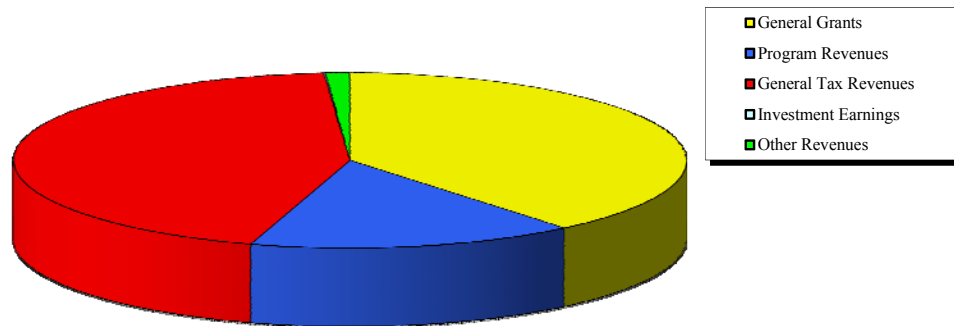
The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner 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 dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

Taxes made up 44% of governmental activities revenues for the District in fiscal year 2012. The District's reliance upon tax revenues is demonstrated in the following graph:

**Governmental Activities
 Revenue Sources**

Revenue Sources	2012	Percentage
General Grants	\$19,057,334	39.06%
Program Revenues	7,659,050	15.70%
General Tax Revenues	21,476,065	44.01%
Investment Earnings	40,119	0.08%
Other Revenues	561,054	1.15%
Total	\$48,793,622	100.00%



Instruction comprises 59.24% of governmental program expenses. Support services expenses were 33.49% of governmental program expenses. All other expenses including interest expense were 7.27%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Operating Grants and Contributions decreased mainly due to a decrease in grant monies received in fiscal year 2012 as compared to fiscal year 2011. Instruction and related support services decreased due to the District's efforts to cut costs throughout the District.

**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

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 governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction	\$28,820,698	\$30,599,043	(\$23,943,957)	(\$25,259,357)
Support Services:				
Pupil and Instructional Staff	4,858,948	5,646,576	(4,609,431)	(3,633,427)
School Administrative, General				
Administration, Fiscal and Business	4,390,728	4,365,416	(4,296,281)	(4,219,957)
Operations and Maintenance	3,788,308	3,731,456	(3,781,231)	(3,482,825)
Pupil Transportation	2,812,606	2,343,773	(2,687,590)	(2,179,372)
Central	443,363	443,172	(436,163)	(429,072)
Operation of Non-Instructional Services	1,836,826	1,669,831	176,925	182,630
Extracurricular Activities	816,457	719,144	(531,156)	(437,307)
Interest and Fiscal Charges	885,831	1,160,884	(885,831)	(1,160,884)
Total Expenses	<u>\$48,653,765</u>	<u>\$50,679,295</u>	<u>(\$40,994,715)</u>	<u>(\$40,619,571)</u>

The District's Funds

The District has one major governmental fund: the General Fund. Assets of the General fund comprised \$22,547,437 (82%) of the total \$27,622,824 governmental funds assets.

General Fund: Fund balance at June 30, 2012 was \$3,778,411. The fund balance increase of \$1,177,169 from 2011 was primarily due to the District's efforts to reduce expenditures.

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.

**Fairborn City School District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

During the course of fiscal year 2012, the District amended its general fund budget, however none were significant. The District uses site-based budgeting and the 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, final budget basis estimated revenue was \$40,573,900 compared to original budget estimates of the same amount.

The District’s ending unobligated actual fund balance for the General Fund was \$3,664,548.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$12,064,005 invested in land, land improvements, buildings and improvements, and equipment. Table 4 shows fiscal year 2012 balances compared to fiscal year 2011:

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

	Governmental Activities	
	2012	2011
Land	\$299,675	\$299,675
Land Improvements	3,026,406	3,376,578
Buildings and Improvements	7,649,354	8,370,794
Furniture and Equipment	1,088,570	989,345
Total Net Capital Assets	<u>\$12,064,005</u>	<u>\$13,036,392</u>

Net Capital Assets decreased mainly due to current year depreciation expense exceeded current year capital asset additions.

See Note 8 to the basic financial statements for further details on the District’s capital assets.

Debt

At fiscal year end, the District had \$16,117,687 in bonds payable, \$965,000 due within one year. Table 5 summarizes bonds outstanding at year end.

**Fairborn City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

**Table 5
Outstanding Debt at Year End**

	Governmental Activities	
	2012	2011
Governmental Activities:		
General Improvement Refunded Bonds:		
Current Interest Bonds	\$ 13,800,000	\$ 14,570,000
Capital Appreciation Bonds	99,987	99,987
Accreted Interest	740,812	491,740
Premium on Bonds	1,126,888	1,202,014
Energy Conservation Improvement Bonds	350,000	515,000
Total General Obligation Bonds	\$16,117,687	\$16,878,741

See Note 12 to the basic financial statements for further details on the District's long-term obligations.

For the Future

On June 30, 2011, Ohio's Governor signed HB 153, the state biennium budget bill. The impact of this bill was a slight increase in state funding for the District for both fiscal years 2011-12 and 2012-13. The Governor has indicated that he will prepare a new school funding model for Ohio school districts during fiscal year 2012-13, to begin in fiscal year 2013-14. At this time, we do not know the details of the changes or the impact that these changes may have on our future state funding. This uncertainty could have an impact on our instructional and operational programs.

With no increase in state funding projected, phase-out of tangible personal property tax and the accelerated phase-out of the hold-harmless payments in HB153, the District must increase revenues with an operating levy. The District asked voters on the November 6, 2012 ballot for the approval of a \$4.4 million emergency levy, which the County Auditor certified that 7.4 mills would have generated the requested amount. However, the emergency levy failed on the ballot. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning, monitoring of the District's finances and successful passage of the November 6, 2012 ballot issue, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at Fairborn City School District, 306 E. Whittier Ave., Fairborn, Ohio 45324.

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Fairborn City School District
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$7,606,026
Receivables:	
Taxes	18,872,769
Accounts	87,647
Interest	1,461
Intergovernmental	1,048,221
Deferred Bond Issuance Costs	156,951
Inventory	6,404
Nondepreciable Capital Assets	299,675
Depreciable Capital Assets, Net	<u>11,764,330</u>
Total Assets	<u>39,843,484</u>
Liabilities:	
Accounts Payable	158,309
Accrued Wages and Benefits	4,361,450
Accrued Interest Payable	54,543
Unearned Revenue	15,153,074
Long-Term Liabilities:	
Due Within One Year	1,340,342
Due In More Than One Year	<u>18,321,837</u>
Total Liabilities	<u>39,389,555</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(3,312,870)
Restricted for:	
Federal Grants	213,670
Other Purposes	131,507
Debt Service	1,124,655
Food Service	1,318,187
Permanent Nonexpendable	140,000
Permanent Expendable	74,769
Unrestricted	<u>764,011</u>
Total Net Assets	<u><u>\$453,929</u></u>

See accompanying notes to the basic financial statements.

Fairborn City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$18,664,716	\$384,714	\$989,681	(\$17,290,321)
Special	7,412,089	375,057	3,094,099	(3,942,933)
Vocational	0	0	3,920	3,920
Other	2,743,893	0	29,270	(2,714,623)
Support Services:				
Pupil	2,681,951	0	60,018	(2,621,933)
Instructional Staff	2,176,997	0	189,499	(1,987,498)
General Administration	50,486	0	0	(50,486)
School Administration	3,257,389	0	94,447	(3,162,942)
Fiscal	837,236	0	0	(837,236)
Business	245,617	0	0	(245,617)
Operations and Maintenance	3,788,308	7,077	0	(3,781,231)
Pupil Transportation	2,812,606	0	125,016	(2,687,590)
Central	443,363	0	7,200	(436,163)
Operation of Non-Instructional Services	1,836,826	542,574	1,471,177	176,925
Extracurricular Activities	816,457	285,301	0	(531,156)
Interest and Fiscal Charges	885,831	0	0	(885,831)
Total Governmental Activities	<u>\$48,653,765</u>	<u>\$1,594,723</u>	<u>\$6,064,327</u>	<u>(40,994,715)</u>

General Revenues:	
Income Taxes	3,478,808
Property Taxes Levied for:	
General Purposes	16,496,227
Debt Service Purposes	1,501,030
Grants and Entitlements not Restricted to Specific Programs	19,057,334
Revenue in Lieu of Taxes	219,187
Investment Earnings	40,119
Other Revenues	341,867
Total General Revenues	<u>41,134,572</u>
Change in Net Assets	139,857
Net Assets Beginning of Year	<u>314,072</u>
Net Assets End of Year	<u><u>\$453,929</u></u>

See accompanying notes to the basic financial statements.

Fairborn City School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$4,605,429	\$3,000,597	\$7,606,026
Receivables:			
Taxes	17,553,268	1,319,501	18,872,769
Accounts	87,139	508	87,647
Interest	1,360	101	1,461
Intergovernmental	299,945	748,276	1,048,221
Interfund	296	0	296
Inventory	0	6,404	6,404
Total Assets	22,547,437	5,075,387	27,622,824
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	143,526	14,783	158,309
Accrued Wages and Benefits	3,735,704	625,746	4,361,450
Compensated Absences	119,543	0	119,543
Interfund Payable	0	296	296
Deferred Revenue	14,770,253	1,532,710	16,302,963
Total Liabilities	18,769,026	2,173,535	20,942,561
Fund Balances:			
Nonspendable	0	146,404	146,404
Restricted	0	2,775,769	2,775,769
Committed	484,204	0	484,204
Assigned	340,274	0	340,274
Unassigned	2,953,933	(20,321)	2,933,612
Total Fund Balances	3,778,411	2,901,852	6,680,263
Total Liabilities and Fund Balances	\$22,547,437	\$5,075,387	\$27,622,824

See accompanying notes to the basic financial statements.

Fairborn City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2012

Total Governmental Fund Balance \$6,680,263

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 12,064,005

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	\$805,172	
Interest	6,644	
Intergovernmental	<u>338,073</u>	
		1,149,889

In the statement of net assets 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. (54,543)

Some liabilities reported in the statement of net assets do not
 require the use of current financial resources and therefore
 are not reported as liabilities in governmental funds.

Compensated Absences	(3,424,949)
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Deferred bond issuance cost associated with long-term liabilities
 are not reported in the funds. 156,951

Long-term liabilities, are not due and payable in the current
 period and therefore are not reported in the funds. (16,117,687)

Net Assets of Governmental Activities \$453,929

See accompanying notes to the basic financial statements.

Fairborn City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$20,201,520	\$1,515,586	\$21,717,106
Revenue in lieu of taxes	197,220	0	197,220
Tuition and Fees	554,165	0	554,165
Investment Earnings	59,175	17,227	76,402
Intergovernmental	20,401,058	5,443,256	25,844,314
Extracurricular Activities	151,536	105,533	257,069
Charges for Services	221,202	558,093	779,295
Other Revenues	131,518	17,310	148,828
Total Revenues	41,917,394	7,657,005	49,574,399
Expenditures:			
Current:			
Instruction:			
Regular	16,538,204	1,021,952	17,560,156
Special	5,611,515	1,808,750	7,420,265
Other	2,776,683	23,541	2,800,224
Support Services:			
Pupil	2,618,487	73,723	2,692,210
Instructional Staff	1,373,020	830,036	2,203,056
General Administration	50,486	0	50,486
School Administration	3,001,459	158,336	3,159,795
Fiscal	817,843	17,215	835,058
Business	248,336	0	248,336
Operations and Maintenance	3,801,303	6,897	3,808,200
Pupil Transportation	2,685,669	0	2,685,669
Central	414,931	7,200	422,131
Operation of Non-Instructional Services	0	1,950,801	1,950,801
Extracurricular Activities	605,716	136,040	741,756
Capital Outlay	0	11,548	11,548
Debt Service:			
Principal Retirement	0	935,000	935,000
Interest and Fiscal Charges	0	704,202	704,202
Total Expenditures	40,543,652	7,685,241	48,228,893
Excess of Revenues Over (Under) Expenditures	1,373,742	(28,236)	1,345,506
Other Financing Sources (Uses):			
Transfers In	0	196,573	196,573
Transfers (Out)	(196,573)	0	(196,573)
Total Other Financing Sources (Uses)	(196,573)	196,573	0
Net Change in Fund Balance	1,177,169	168,337	1,345,506
Fund Balance Beginning of Year	2,601,242	2,733,515	5,334,757
Fund Balance End of Year	\$3,778,411	\$2,901,852	\$6,680,263

See accompanying notes to the basic financial statements.

Fairborn City School District
 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, 2012

Net Change in Fund Balance - Total Governmental Funds \$1,345,506

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	\$231,162	
Depreciation Expense	(1,203,549)	
		(972,387)

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

Delinquent Property Taxes	(\$28,498)	
Interest	(29,626)	
Intergovernmental	(722,653)	
		(780,777)

Repayment of bond and capital lease principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 935,000

Interest expense in the statement of activities differs from the amount
 reported in governmental funds for two reasons. Additional accrued
 interest was calculated for bonds and notes payable, and the difference
 arising from the advance refunding due to premium and bond issuance
 costs.

Accrued Interest		2,780
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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	(\$205,856)	
Amortization of Bond Issuance Cost	(10,463)	
Amortization of Bond Premium	75,126	
Bond Accretion	(249,072)	
		(390,265)

Change in Net Assets of Governmental Activities		<u>\$139,857</u>
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See accompanying notes to the basic financial statements.

Fairborn City School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$19,328,141	\$19,328,141	\$19,751,432	\$423,291
Revenue in lieu of taxes	192,993	192,993	197,220	4,227
Tuition and Fees	424,446	424,446	433,741	9,295
Investment Earnings	209,636	209,636	214,227	4,591
Intergovernmental	19,870,898	19,870,898	20,306,076	435,178
Extracurricular Activities	102,156	102,156	104,393	2,237
Charges for Services	216,461	216,461	221,202	4,741
Other Revenues	229,169	229,169	234,188	5,019
Total Revenues	40,573,900	40,573,900	41,462,479	888,579
Expenditures:				
Current:				
Instruction:				
Regular	17,445,050	16,975,681	16,976,156	(475)
Special	5,930,057	5,770,506	5,770,667	(161)
Other	2,962,552	2,882,843	2,882,924	(81)
Support Services:				
Pupil	2,744,211	2,670,376	2,670,451	(75)
Instructional Staff	1,410,246	1,372,303	1,372,341	(38)
General Administration	58,441	56,868	56,870	(2)
School Administration	3,130,632	3,046,401	3,046,486	(85)
Fiscal	853,586	830,620	830,643	(23)
Business	262,653	255,586	255,593	(7)
Operations and Maintenance	4,058,351	3,949,159	3,949,269	(110)
Pupil Transportation	2,723,732	2,650,449	2,650,523	(74)
Central	466,520	453,968	453,981	(13)
Extracurricular Activities	620,645	603,946	603,963	(17)
Total Expenditures	42,666,676	41,518,706	41,519,867	(1,161)
Excess of Revenues Over (Under) Expenditures	(2,092,776)	(944,806)	(57,388)	887,418
Other Financing Sources (Uses):				
Transfers (Out)	(1,609)	(1,566)	(1,566)	0
Total Other Financing Sources (Uses)	(1,609)	(1,566)	(1,566)	0
Net Change in Fund Balance	(2,094,385)	(946,372)	(58,954)	887,418
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	3,723,502	3,723,502	3,723,502	0
Fund Balance End of Year	\$1,629,117	\$2,777,130	\$3,664,548	\$887,418

See accompanying notes to the basic financial statements.

Fairborn City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2012

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$221,878
Receivables:	
Accounts	81
Interest	<u>7</u>
Total Assets	<u><u>221,966</u></u>
Liabilities:	
Accounts Payable	2,836
Other Liabilities	<u>219,130</u>
Total Liabilities	<u><u>\$221,966</u></u>
Net Assets:	
Held in Trust	
Total Net Assets	

See accompanying notes to the basic financial statements.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the School District

Fairborn City School District (the “School District”) has grown from a union of the Fairborn, Osborn and Bath Township schools, which took place when the town of Osborn was moved. The earliest school records available are of Bath Township schools’ purchase of land on September 1, 1856. The oldest historical record of the Osborn schools is a meeting of the Board of Education of July 27, 1906. The early history of the Fairborn school system consists of a log schoolhouse, one room up and two rooms down, in 1873. When consolidation of the three school systems was suggested there was much of the usual opposition. However, consolidation passed by a small majority and the school year 1923 started under the new plan.

Today the School District operates under the current standards prescribed by the Ohio Department of Education as provided in division (D) of sections 3301.07 and 119.01 of the Ohio Revised Code. The School District is established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charge and further mandated by state and/or federal agencies.

Reporting Entity

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

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

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The School District is associated with five jointly governed organizations and one insurance purchasing pool. These organizations include the Southwestern Ohio Educational Purchasing Council, Miami Valley Special Education Regional Resource Center, Southwestern Ohio Instructional Technology Association, Greene County Career Center, Metropolitan Dayton Educational Cooperative Association, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 of the financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School 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. Following are the more significant of the School District's accounting policies.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds. The latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, expenditures related to compensated absences and debt service are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the School District.

Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District employs the use of two categories of funds: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 School District reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund type:

Fiduciary Agency Fund reporting focuses on net assets and changes in net assets. The School District maintains one fiduciary fund: Student Activities Agency. The Student Activities fund was established to account for revenues generated by student managed activities. The School District's agency fund is custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency fund, are legally required to be budgeted and appropriated. The legal level of budgetary control for all funds is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Greene County Budget Commission for rate determination.

Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which indicates the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the School District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Lapsing of Appropriations

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the statement of net assets and fund balance sheet.

During fiscal year 2012, investments were limited to funds invested in Commercial Paper and the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Investment contracts and money market investments that have a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2012.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2012 amounted to \$59,175 credited to the general fund and \$17,227 credited to other governmental funds.

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.

On the fund financial statements, reported material and supplies inventory is equally offset by a non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Capital Assets

Capital assets, which include land, land improvements, building and improvements, and equipment are reported on the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if actual amounts were not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The School District reviewed possible infrastructure assets (roads, bridges, culverts, etc.) which could be required to be capitalized. The School District has no infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the School District are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	30-50
Building and Improvements	10-40
Land Improvements	10-20
Furniture, Equipment and Vehicles	5-20

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after ten years of service or at age fifty-five or upon retirement from STRS or SERS.

Expenditures or liabilities related to compensated absences are reported in governmental funds only if they are due for payment as matured leave payable. The entire liability is reported on the government-wide statement of net assets.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported on the governmental fund financial statements when the liability is incurred. However, compensated absences and debt service expenditures are recorded as expenditures only when payment is due.

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 Assets.

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

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the School 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:

Non-spendable – 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.

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

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The School District applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted assets are available. The School 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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are available. Of the District's \$3,002,788 in restricted net assets, none were restricted by enabling legislation.

Deferred Revenues

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, 2012, but which were levied to finance fiscal year 2013 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.

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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Exchange/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.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes 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 fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Estimates

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

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Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 – Accountability

At June 30, 2012, the following funds had deficit fund balances:

<u>Fund</u>	<u>Amount</u>
Non-Major Governmental Funds	
Education Jobs	\$20,321

The deficit in this fund was created by the application of generally accepted accounting principles.

Note 4 - Budget to GAAP Reconciliation

Budgetary Basis of Accounting

While the School 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 and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The following table summarizes the adjustments necessary to reconcile the General Fund GAAP and budgetary basis statements.

Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	
GAAP Basis	\$1,177,169
Adjustments:	
Revenue Accrual	(458,597)
Expenditure Accrual	(570,467)
Encumbrances	(350,746)
Transfers Out	195,007
Funds Budgeted Elsewhere	(51,320)
Budget Basis	(\$58,954)

Note 5 - Equity in Pooled Cash and Investments

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

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

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

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

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

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds notes, debentures, or other obligations or securities issued by any federal governmental agency.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

- (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 five years 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.

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, 2012, \$4,064,662 of the District's bank balance of \$5,392,745 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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, that are not covered by any federal deposit insurance.

Investments

As of June 30, 2012, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Commercial Paper	\$997,000	0.28
STAR Ohio	1,554,453	0.14
Total Fair Value	\$2,551,453	
Portfolio Weighted Average Maturity		0.20

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 Commercial Paper were not rated. The District’s investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 39% of the District’s investments in Commercial Paper and 61% in STAR Ohio. The District’s investment in commercial paper was greater than twenty-five percent of the interim monies for the District, as required by Ohio Rev. Code Section 135.142(A) and was not approved by two-thirds vote of the Board of Education.

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.

Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$59,175, which includes \$16,167 assigned from other School District funds.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 6 - Property Tax and Income Tax

Property Tax

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.

Tangible personal property tax revenue received during calendar year 2012 (other than public utility property tax) represents the collection of 2012 taxes levied against local and interexchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after April 1, 2011, on the value as of December 31, 2011. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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 Greene, Montgomery and Clark Counties. 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, 2012, are available to finance fiscal year 2012 operations. The amount available for advance can vary based on the date the tax bills are sent.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2012. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2012 on the fund statements. The entire amount of delinquent taxes receivable is recognized as 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

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, 2012, was \$1,817,068 for the General Fund, \$139,870 for Other Governmental Funds, and is recognized as revenue.

The assessed values upon which fiscal year 2012 taxes were collected are:

	<u>2012 First Half Collections</u>		<u>2011 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$589,326,510	97.40%	\$635,189,390	97.53%
Public Utility Personal	15,737,050	2.60%	15,306,870	2.35%
Tangible Personal Property	<u>0</u>	<u>0.00%</u>	<u>775,420</u>	<u>0.12%</u>
Total Assessed Value	<u>\$605,063,560</u>	<u>100.00%</u>	<u>\$651,271,680</u>	<u>100.00%</u>

Income Tax

The District levies a voted tax of .50% for general operations on the income of residents and of estates. The tax was first approved in 1990. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 7 – Receivables

Receivables at June 30, 2012 include taxes, accounts, interest, intergovernmental 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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$299,675	\$0	\$0	\$299,675
Total Capital Assets, not being depreciated	299,675	0	0	299,675
<i>Capital Assets, being depreciated:</i>				
Land Improvements	7,501,195	0	0	7,501,195
Buildings and Improvements	27,932,579	0	0	27,932,579
Furniture, Equipment and Vehicles	9,007,384	231,162	0	9,238,546
Total Capital Assets, being depreciated:	44,441,158	231,162	0	44,672,320
Totals at Historical Cost	<u>44,740,833</u>	<u>231,162</u>	<u>0</u>	<u>44,971,995</u>
Less Accumulated Depreciation:				
Land Improvements	4,124,617	350,172	0	4,474,789
Buildings and Improvements	19,561,785	721,440	0	20,283,225
Furniture, Equipment and Vehicles	8,018,039	131,937	0	8,149,976
Total Accumulated Depreciation	<u>31,704,441</u>	<u>1,203,549</u>	<u>0</u>	<u>32,907,990</u>
Governmental Activities Capital Assets, Net	<u>\$13,036,392</u>	<u>(\$972,387)</u>	<u>\$0</u>	<u>\$12,064,005</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$965,149
Special	1,234
Support Services:	
Instructional Staff	14,387
School Administration	52,183
Business	2,732
Operations and Maintenance	5,694
Pupil Transportation	121,972
Central	895
Operation of Non-Instructional Services	12,090
Extracurricular Activities	27,213
Total Depreciation Expense	<u>\$1,203,549</u>

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 9 - Risk Management

The School District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees and natural disasters. During fiscal year 2012, the School District carried property and general liability insurance and boiler and machinery insurance.

Professional liability is protected by the Selective Insurance Company, with \$1,000,000 each occurrence, and \$3,000,000 in annual aggregate limit. An additional “umbrella” policy through Genesis Insurance Company has \$5,000,000 per occurrence and \$5,000,000 aggregate limit.

The School District contracted with Selective Insurance Company for building and property insurance. Commercial property is insured at a limit of \$115,687,988 with a \$1,000 deductible on everything except boiler and machinery that have a \$3,500 deductible.

Automobile liability is also covered by Selective Insurance Company for replacement cost with a \$1,000 comprehensive deductible, \$1,000 collision deductible, and combined single limit each accident of \$1,000,000.

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

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 by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted 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 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, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% 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, 2012, 2011, and 2010 were \$929,064, \$936,072, and \$729,913, respectively; 67% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2012, 2011, and 2010 were \$2,926,884, \$3,134,796, and \$2,850,150, respectively; 85% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

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 2012 was \$99.90 for most participants, but could be as high as \$319.70 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 2012, the actuarially required allocation was .75%. District contributions for the year ended June 30, 2012, 2011 and 2010 were \$49,771, \$50,815 and \$43,406, respectively, which equaled the required contributions each year.

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, 2012, the health care allocation was .55%. 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

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 2012, the minimum compensation level was established at \$35,800. 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, 2012, 2011, and 2010 were \$118,185, \$95,613, and \$146,747, respectively; 67% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

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 by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted 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 benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

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.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 year ended June 30, 2012, 2011 and 2010. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2012, 2011, and 2010 were \$209,063, \$223,914, and \$219,242, respectively; 85% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

Note 12 - Long Term Debt

Debt obligations of the School District at June 30, 2012 consisted of the following:

	Interest Rate	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities						
<u>General Obligation Bonds and Notes:</u>						
General Improvement Bonds - Refunded						
Current Interest Bonds	4-5.25%	\$14,570,000	\$0	(\$770,000)	\$13,800,000	\$795,000
Capital Appreciation Bonds - Principal Only		99,987	0	0	99,987	0
Accretion of Interest		491,740	249,072	0	740,812	0
General Improvement Bond Premium		1,202,014	0	(75,126)	1,126,888	0
Energy Conservation Improvement	3.5-4.6%	515,000	0	(165,000)	350,000	170,000
Total Bonds and Notes		16,878,741	249,072	(1,010,126)	16,117,687	965,000
Compensated Absences		3,526,988	633,902	(616,398)	3,544,492	375,342
Total Governmental Activities						
Long-Term Liabilities		\$20,405,729	\$882,974	(\$1,626,524)	\$19,662,179	\$1,340,342

General improvement bonds issued August 1, 2000, with a variable interest rate of 4.7 – 4.95% to be paid from the debt service fund with the final maturity being during fiscal year 2027. In May 2006, these bonds were partially refunded and now have a variable interest rate of 4.0% to 5.25% with a final maturity date of 12/1/2026. A significant savings will be seen by the School District with this refunded issue.

Energy Conservation Improvement bonds were issued February 28, 2002 for \$1,705,000 at a variable interest rate of 3.5 – 4.6% for the purpose of the improvement and renovation of buildings. The bonds were issued for a twelve year period with a final maturity during fiscal year 2014.

All debt issues will be retired from the Debt Service Fund. Compensated absences will be paid from the funds from which the employees' salaries are paid.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The annual requirements to amortize all debt outstanding as of June 30, 2012 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$965,000	\$685,138	\$1,650,138	\$0	\$0	\$0
2014	180,000	8,280	188,280	58,976	1,417,267	1,476,243
2015	0	0	0	41,010	1,425,233	1,466,243
2016	835,000	636,244	1,471,244	0	0	0
2017	870,000	599,713	1,469,713	0	0	0
2018-2022	4,960,000	2,348,913	7,308,913	0	0	0
2023-2027	6,340,000	982,250	7,322,250	0	0	0
Total	<u>\$14,150,000</u>	<u>\$5,260,538</u>	<u>\$19,410,538</u>	<u>\$99,986</u>	<u>\$2,842,500</u>	<u>\$2,942,486</u>

Note 13 - Employee Benefits

Compensated Absences

The criteria for determining vested vacation and sick leave amounts are derived from negotiated agreements and State laws. Classified employees and Administrators earn ten to twenty days of vacation per year, depending upon length of service. Employees may accumulate and carry over up to two years vacation accumulation. At the time of separation, an employee is entitled to compensation at the current rate of pay for all unused vacation accrued for the immediately preceding two years in addition to the prorated portion of earned but unused vacation leave for the current year. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 252 days for teachers and administrators and 243 days for the classified staff. Upon retirement with a minimum of ten years of service with the School District or employees who attain age 55 or retire through STRS or SERS payment is made for thirty-three percent of the employee's accumulated sick leave up to a maximum of 84 days for teachers and administrators and 81 days for classified staff.

Life Insurance

The School District provides life insurance and accidental death insurance to most employees through Unum Life Insurance Company of America.

Employee Medical/Dental Benefits

The School District has elected to provide employee medical/surgical benefits through Anthem. The School District pays 90% of family or single plans with the exception of 9 month employees. For employees working less than 10 months the board pays 90% for a single plan and 50% of a family plan. The School District provides 100% of the cost dental insurance to employees.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 14 - Interfund Balance/Transfers

Interfund balances at June 30, 2012, consist of the following transfers:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$296	\$0	\$0	\$196,573
Other Governmental Funds	0	296	196,573	0
Total All Funds	<u>\$296</u>	<u>\$296</u>	<u>\$196,573</u>	<u>\$196,573</u>

Interfund balances/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 budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 15 - Set-Aside Calculations and Fund 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 similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In previous years, the District was required to have a textbook reserve. House Bill 30 of the 129th General Assembly repealed the textbook reserve requirement effective July 1, 2011.

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

	<u>Capital Acquisition</u>
Set Aside Reserve Balance as of June 30, 2011	\$0
Current Year Set Aside Requirements	745,020
Qualified Disbursements	(702,943)
Current Year Offsets	<u>(21,505,000)</u>
Set Aside Reserve Balance as of June 30, 2012	<u><u>(\$21,462,923)</u></u>
Restricted Cash as of June 30, 2012	<u><u>\$0</u></u>

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 16 -Jointly Governed Organizations

Southwestern Ohio Educational Purchasing Council (SOEPC)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of over 126 public school districts in 18 counties. The purpose of the council is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. The School District paid \$580,639 to SOEPC for the year ended June 30, 2012. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center, Suite 208, Vandalia, OH 45377.

Miami Valley Special Education Regional Resource Center

The Miami Valley Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 38 members made up of the 38 superintendents, 6 parent mentors, 12 special education directors, and one university. Some entities have more than one voting delegate. Financial information can be obtained from Joni Shoemaker, at the Montgomery County Educational Service Center, 200 S Keowee Street, Dayton, Ohio 45402.

Southwestern Ohio Instructional Technology Association (SOITA)

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. The School District paid \$0 to SOITA for the year ended June 30, 2012. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pougé, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

Greene County Career Center

The Greene County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating Districts' elected Boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Greene County Career Center, Judy Geers, who serves as Treasurer, at 2960 W. Enon Rd., Xenia, OH 45385.

Metropolitan Dayton Educational Cooperative Association

The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public Districts within the boundaries of Montgomery, Miami and Darke Counties, and the Cities of Dayton, Troy, Fairborn, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts.

The governing board of MDECA consists of seven Superintendents of member Districts, with six of the Superintendents elected by majority vote of all member Districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid \$117,376 for these services for the year ended June 30, 2012. Financial information can be obtained from Dean Reineke, who serves as Executive Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Note 17 - Insurance Purchasing Pool

The School District is a member of the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (SOEPC). The cooperative council contracts with Hunter Consulting, Inc. as the Third Party Administrator (TPA) and Comp Management as MCO to provide an insurance purchasing pool for workers compensation. The School District is penalty rated due to a large number of claims and therefore does not receive the low rate. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center, Suite 208, Vandalia, OH 45377.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 18 – Contingencies

Student Attendance Data Review

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

Financial Assistance

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the School District at June 30, 2012.

Note 19 – Permanent Fund Balance

The School District's permanent fund consists of many different donations established for a variety of purposes. The permanent fund includes donor-restricted endowment funds. Net assets associated with the permanent fund are classified and reported based on the existence or absence of donor-imposed restrictions. Any additional School Board restrictions are reported in expendable net assets under the permanent fund.

The School District records the annual income of the permanent fund as expendable net assets and appropriated for expenditure upon meeting other donor restrictions. The School District reports the original and any future permanently restricted donor funds as nonexpendable net assets that are used to generate interest income that is available for expenditure.

The School District has a spending policy with respect to expendable amounts available for distribution within the permanent fund. The School District has typically expended less than the interest earned; however, all expendable funds could be distributed as long as the other donor restrictions have been satisfied.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The following table shows the changes in the expendable and nonexpendable net assets of the permanent fund during the fiscal year:

	Net Assets	
	<u>Expendable</u>	<u>Nonexpendable</u>
Beginning Balance - June 30, 2011	\$65,939	\$140,000
Contributions:		
Interest	16,090	0
Deductions:		
Instructional assistance	(7,260)	0
Ending Balance - June 30, 2012	<u>\$74,769</u>	<u>\$140,000</u>

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Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 20 – 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 funds and all other governmental funds are presented below:

Fund Balances	General	Other Governmental Funds	Total
Nonspendable:			
Endowment	\$0	\$140,000	\$140,000
Inventory	0	6,404	6,404
Total Nonspendable	0	146,404	146,404
Restricted for:			
Other Grants	0	9,605	9,605
District Managed Activities	0	40,336	40,336
Auxiliary Services	0	63,977	63,977
Public Preschool	0	4,875	4,875
Title VI-B Grant	0	3,071	3,071
Title II-D Grant	0	8,000	8,000
Comprehensive School Reform Grant	0	21,657	21,657
Title III Grant	0	3,339	3,339
Title I	0	15,692	15,692
EHA Preschool Grant	0	570	570
Improving Teacher Quality	0	14,204	14,204
Food Service	0	1,393,429	1,393,429
Special Trust	0	4,848	4,848
Debt Service	0	1,117,397	1,117,397
Endowment	0	74,769	74,769
Total Restricted	0	2,775,769	2,775,769
Committed to:			
Termination Benefits	484,204	0	484,204
Total Committed	484,204	0	484,204
Assigned to:			
Public School	51,340	0	51,340
Encumbrances	288,934	0	288,934
Total Assigned	340,274	0	340,274
Unassigned (Deficit)	2,953,933	(20,321)	2,933,612
Total Fund Balance	\$3,778,411	\$2,901,852	\$6,680,263

Note 21 – Subsequent Event

The Ohio Department of Education declared Fairborn City Schools to be in a state of fiscal caution effective January 14, 2013 based on possibility of ending the 2013 fiscal year in a deficit.

Fairborn City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 22 – District’s Plan

The Fairborn City Schools Board of Education has passed the necessary resolutions to place a \$7,000,000/10-Year Emergency Operating Levy on the May 7, 2013 ballot. All necessary paperwork has been certified by the County Auditor and filed with the Greene County Board of Elections. Also, district administrators are currently reviewing whether any additional staffing and/or budgetary reductions can be implemented.

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555		\$98,816		\$98,816
Cash Assistance:					
School Breakfast Program	10.553	\$395,311		\$395,311	
National School Lunch Program	10.555	1,039,324		1,039,324	
Summer Food Service Program for Children	10.559	8,620		8,620	
Total Child Nutrition Cluster		<u>1,443,255</u>	<u>98,816</u>	<u>1,443,255</u>	<u>98,816</u>
Total U.S. Department of Agriculture		<u>1,443,255</u>	<u>98,816</u>	<u>1,443,255</u>	<u>98,816</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies	84.010	1,492,490		1,420,634	
ARRA - Title I Grants to Local Educational Agencies	84.389	90,146		114,989	
Total Title I, Part A Cluster		<u>1,582,636</u>		<u>1,535,623</u>	
Special Education Cluster (IDEA):					
Special Education Grants to States	84.027	1,045,919		1,029,827	
ARRA - Special Education Grants to States	84.391	181,796		181,874	
Total Special Education Grants to States		<u>1,227,715</u>		<u>1,211,701</u>	
Special Education Preschool Grants	84.173	44,228		45,634	
<i>Passed Through Greene County Educational Service Center</i>					
Special Education Grants to States	84.027			2,349	
Total Special Education Cluster (IDEA)		<u>1,271,943</u>		<u>1,259,684</u>	
Education for Homeless Children and Youth	84.196	28,322		19,393	
Education Technology State Grants	84.318	7,028		7,878	
English Language Acquisition State Grants	84.365	13,143		12,422	
Improving Teacher Quality State Grants	84.367	273,656		284,177	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394			3,718	
Education Jobs Fund	84.410	743,644		710,758	
<i>Passed Through Greene County Educational Service Center</i>					
Fund for the Improvement of Education	84.215	20,735		24,419	
<i>Direct Aid</i>					
Impact Aid	84.041	306,888		306,888	
Total U.S. Department of Education		<u>4,247,995</u>		<u>4,164,960</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
<i>Passed Through Greene County Educational Service Center</i>					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	12,746		13,715	
Total U.S. Department of Health and Human Services		<u>12,746</u>		<u>13,715</u>	
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					
<i>Passed Through Cleveland State University</i>					
Learn and Serve America School and Community Based Programs	94.004	(1,646)			
Total Corporation for National and Community Service		<u>(1,646)</u>			
Total		<u>\$5,702,350</u>	<u>\$98,816</u>	<u>\$5,621,930</u>	<u>\$98,816</u>

The accompanying notes are an integral part of this schedule.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Fairborn City School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairborn City School District, Greene County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2013, wherein we noted that the Ohio Department of Education declared the District to be in fiscal caution. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2012-002 to be a significant deficiency. 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.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 22, 2013.

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

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 22, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

Compliance

We have audited the compliance of Fairborn City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Fairborn City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Fairborn City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 22, 2013.

We intend this report solely for the information and use of the audit committee, management, Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 22, 2013

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster: Title I, Part A Grants to Local Educational Agencies (84.010) ARRA- Title I, Part A Grants to Local Educational Agencies (84.389) Special Education Cluster: Special Education Grants to States (84.027) ARRA - Special Education Grants to States (84.391) Special Education Preschool Grants (84.173) Education Jobs Fund (84.410)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-001

NONCOMPLIANCE

Ohio Revised Code Section 135.142(A) states that in addition to the investments authorized by section 135.14 of the Revised Code, any Board of Education, by a two-thirds vote of its members, may authorize the Treasurer of the Board of Education to invest up to twenty-five percent of the interim moneys of the Board, available for investment at any one time, in either of the following:

- (1) Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes all of the following apply:
 - (a) The notes are rated at the time of purchase in the highest classification established by at least two standard rating services;
 - (b) The aggregate value of the notes does not exceed ten per cent of the aggregate value of the outstanding commercial paper of the issuing corporation;
 - (c) The notes mature no later than one hundred eighty days after purchase.

- (2) Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both of the following apply:
 - (a) The obligations are eligible for purchase by the federal reserve system;
 - (b) The obligations mature no later than one hundred eighty days after purchase.

At June 30, 2012, the District invested \$997,000 or 28.07 % of total interim monies in commercial paper. The District's investment policy does not specifically allow investment in commercial paper. Additionally, the Board of Education, by a two-third vote of its members, did not authorize the Treasurer to invest in commercial paper.

Policies and procedures should be established and implemented to verify that all investments are made in accordance with the Board's investment policy. Due to higher inherent risk of loss in commercial paper investments, the District should limit such investments to twenty-five percent of interim monies and such investments should only be made after obtaining two-thirds approval the Board of Education members. Failure to do so increases the District's concentration of credit risk and exposes the District to potential investment losses.

Official's Response: District has put measures in place to ensure compliance. The Board will be approving the current commercial paper investments for compliance at its next regular meeting. In addition, a revised investment policy is currently being reviewed by legal counsel. Treasurer will present to Board for approval once received.

FINDING NUMBER 2012-002

SIGNIFICANT DEFICIENCY

The following errors were noted during the testing of Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis):

- Original budgeted expenditures were overstated by \$146,280
- Original budgeted receipts were overstated by \$1,010,683
- Final budgeted receipts were understated by \$1,586,021
- June 30, 2012 unencumbered fund balance was understated by \$1,157

The above noted variances were determined to be immaterial to the District's general fund budgetary presentation and did not require an audit adjustment in the accompanying statement. However the internal control deficiency is significant enough to warrant the attention of those charged with governance as the design or operation of controls did not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements.

The District should implement procedures to report correct budgeted expenditures in the Budget versus Actual statement as these statements can be very useful to management during decision-making, can serve as a tool to analyze the District's operations and fiscal performance, and to accurately reflect fiscal activity for potential report users of the District's financial statements.

Official's Response: Treasurer has put necessary procedures and measures in place to ensure compliance. The District will be doing a correcting procedure for the current fiscal year (2012-2013) to reduce audit risk and non-compliance.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

FAIRBORN CITY SCHOOL DISTRICT

GREENE 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 26, 2013**