

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
Regular Audit
June 30, 2005**



Mary Taylor, CPA
Auditor of State

Board of Education
Fairlawn Local School District
18800 Johnston Road
Sidney, Ohio 45365

We have reviewed the *Independent Accountants' Report* of the Fairlawn Local School District, Shelby County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 10, 2007

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

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INDEPENDENT ACCOUNTANTS' REPORT

February 27, 2007

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

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 Fairlawn Local School District, Shelby County, (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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.

Ohio Administrative Code 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairlawn Local School District, Shelby County, as of June 30, 2005, and the changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in the conformity with the basis of accounting Note 2 describes.

Fairlawn Local School District
Shelby County
Independent Accountant's Report
Page 2

For the fiscal year ended June 30 2005, the School District revised its financial presentation comparable to the requirements of the Governmental Accounting Standards No. 34, *Basic Financial Statements-and Management's Discussion and Analytics-for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2007, on our consideration of the School 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Fairlawn Local School District's (the School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the Government's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Government's financial performance.

Financial Highlights

Key highlights for 2005 are as follows:

In total, net assets of governmental activities only decreased \$8,301, an insignificant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Debt Service Fund. The Debt Service Fund has adequate fund balance to pay off the remaining debt thus it is not collecting any additional tax revenues.

The Government's general receipts, those being primarily property and income tax and unrestricted state, were 75 percent of the total cash received during the fiscal year. Dependence on these three revenue sources is significant.

The School District received \$469,000 in open enrollment tuition revenue from the state. This represents 11.6 percent of the total cash received during the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transaction.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Fund financial statements provide a greater 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 School District's most significant funds, with all other non-major funds presented in total in a single column. For Fairlawn Local School District, the General Fund is the most significant fund.

Reporting the District as a Whole

The statement of net assets and the statement of activities reflect how the school district did financially during fiscal year 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year-end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Government's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors that contribute to these changes may also include the School District's property tax base, enrollment, required educational programs and other factors. In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities. All of the school District's programs and services are reported here including instruction, support service, non-instructional, food services, extracurricular activities, debt service, and capital outlay disbursements.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major fund: the General Fund. While the School District uses many funds to account for its financial transactions, the General Fund is the most significant

Governmental Funds – the School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide a detailed short-term view of the School District's operations. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the cash basis of accounting.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

**UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School Districts net assets for fiscal year 2005. Since this is the first year the School District has prepared financial statements according to GASB statement No. 34, net asset comparisons to fiscal year 2004 are not available.

**Table 1
Net Assets – Cash Basis
Governmental Activities**

	2005
Assets:	
Current and Other Assets	\$ 1,312,450
Total Assets	1,312,450
 Net Assets:	
Restricted	333,521
Unrestricted	978,929
Total Net Assets	\$ 1,312,450

Total net assets for governmental activities decreased by \$8,301. The primary reasons contributing to the decrease in cash balance are as follows:

1. The District has adequate debt service fund balance to pay remaining debt and thus is not collecting any additional taxes.
2. District has one teacher that retired and received severance payment in 2005.

The table on the following page reflects the changes in net assets for fiscal year 2005. Since this is the first year the School District has prepared financial statements according to GASB statement No. 34, revenue and expense comparisons to fiscal year 2004 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

**UNAUDITED
(Continued)**

**Table 2
Changes in Net Assets – Cash Basis
Governmental Activities**

	2005
Revenues	
Program Revenues:	
Charges for Services	\$ 656,843
Operating Grants and Contributions	288,575
Capital Grants and Contributions	13,827
General Revenues:	
Property Taxes	796,242
Income Taxes	270,136
Grants and Entitlements	1,967,845
Interest	24,292
Miscellaneous	9,224
Total Revenues	\$ 4,026,984
Program Expenses	
Instruction:	
Regular	\$ 1,706,968
Special	323,473
Adult/Continuing	31,504
Support Services:	
Pupil	160,593
Instructional Staff	230,378
Board of Education	8,815
Administration	438,779
Fiscal	172,732
Business	5,003
Operation and Maintenance of Plant	332,065
Pupil Transportation	292,311
Central	1,045
Food Service	124,246
Extracurricular Activities	132,338
Capital Outlay	19,335
Debt Service:	
Principal	50,000
Interest and Fiscal Charges	5,700
Total Disbursements	\$ 4,035,285
Decrease in Net Assets	\$ (8,301)

Program receipts represent a total of 24% of total receipts. This is primarily due to the District having a high number of incoming open enrollment students. Open enrollment revenue was 11% of total receipts. Restricted intergovernmental receipts, tuition, food service, fees and extracurricular activities also make up program receipts.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The major program disbursements for governmental activities are for instruction, which account for 51 percent of all governmental expenses. Support services, which include administration, fiscal, operation and maintenance of plant, and pupil transportation expenses also represent a significant amount of the School District's governmental expenses, 40 percent.

Governmental Activities

The following table indicates the total cost of service and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services.

**Table 3
Governmental Activities**

	Total Cost of Service 2005	Net Cost of Service 2005
Instruction:		
Regular	\$1,706,968	(\$1,054,721)
Special	323,473	(213,698)
Adult/Continuing	31,504	(31,504)
Support Services:		
Pupil	160,593	(148,248)
Instructional Staff	230,378	(223,347)
Board of Education	8,815	(8,815)
Administration	438,779	(438,779)
Fiscal	172,732	(169,732)
Business	5,003	(5,003)
Operation and Maintenance of Plant	332,065	(332,065)
Pupil Transportation	292,311	(292,311)
Central	1,045	(1,045)
Food Service	124,246	(7,400)
Extracurricular Activities	132,338	(94,436)
Capital Outlay	19,335	(10,899)
Debt Service:		
Principal	50,000	(50,000)
Interest and Fiscal Charges	5,700	5,963
Total	\$4,035,285	(\$3,076,040)

It should be noted that for all governmental activities, over 76 percent of the revenues to provide these services are derived from the School District's general revenues; that being primarily property taxes, income tax and State shared revenues. The remaining 24 percent are derived from tuition and fees, specific grants, and donations.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental Activities Financial Analysis

The School District's governmental funds are accounted for using the cash basis accounting. The School District's major governmental fund is the General Fund. The net change in fund balance in the General Fund reflects an increase of \$50,439.

- The district has been able to maintain enrollment and keep state funding consistent with prior years.
- The district has been able to control benefit cost to only a 1.1% growth.

Budgetary Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During fiscal year 2005, the School District amended its General Fund budget as needed. The district uses a site based budgeting to allow flexibility for each individual school district management.

The District did not increase its estimated budgeted revenue for the year.

The original appropriations of the General fund were increased by \$53,000 throughout the year. The School District was able to keep spending very close to budgeted amounts as demonstrated by the minor changes.

Debt Administration

The School District has general obligation bonds outstanding in the amount of \$40,000, which will be repaid with a debt reserve balance. The final payment will be made December 1, 2005.

Current issues

The Fairlawn Local School District is financially stable. However, future finances are not without challenges as enrollment changes and state funding is revised. The District is very heavily reliant on state funding. The District has very little growth in its property valuation.

The District is implementing an all day kindergarten program in fiscal year 2006. The District will be shifting personnel thus not requiring any additional certified staff. The District did have to add two modular classrooms to accommodate this program at a cost of \$150,000.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Keith Doseck, Treasurer, Fairlawn Local School District, 18800 Johnston Road, Sidney, Ohio 45365.

FAIRLAWN LOCAL SCHOOL DISTRICT

*Statement of Net Assets - Cash Basis
For the Fiscal Year Ended June 30, 2005*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,087,450
Investments	<u>225,000</u>
<i>Total Assets</i>	<u><u>1,312,450</u></u>
Net Assets	
Restricted for:	
Capital Projects	127,437
Debt Service	89,923
Set Asides	19,720
Other Purposes	96,441
Unrestricted	<u>978,929</u>
<i>Total Net Assets</i>	<u><u>\$ 1,312,450</u></u>

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 1,706,968	\$ 516,802	\$ 135,445	\$ -	\$ (1,054,721)
Special	323,473	-	109,775	-	(213,698)
Adult/Continuing	31,504	-	-	-	(31,504)
Support Services:					
Pupil	160,593	10,345	2,000	-	(148,248)
Instructional Staff	230,378	-	7,031	-	(223,347)
Board of Education	8,815	-	-	-	(8,815)
Administration	438,779	-	-	-	(438,779)
Fiscal	172,732	-	3,000	-	(169,732)
Business	5,003	-	-	-	(5,003)
Operation and Maintenance of Plant	332,065	-	-	-	(332,065)
Pupil Transportation	292,311	-	-	-	(292,311)
Central	1,045	-	-	-	(1,045)
Operation of Non-Instructional	124,246	85,722	31,124	-	(7,400)
Extracurricular Activities	132,338	32,311	200	5,391	(94,436)
Capital Outlay	19,335	-	-	8,436	(10,899)
Debt Service:					
Principal	50,000	-	-	-	(50,000)
Interest and Fiscal Charges	5,700	11,663	-	-	5,963
Totals	\$ 4,035,285	\$ 656,843	\$ 288,575	\$ 13,827	\$ (3,076,040)

General Revenues

Property Taxes Levied for:

 General Purposes 796,242

Income Taxes Levied for:

 General Purposes 270,136

Grants and Entitlements not Restricted to Specific Programs 1,967,845

Investment Earnings 24,292

Miscellaneous 9,224

Total General Revenues 3,067,739

Change in Net Assets (8,301)

Net Assets Beginning of Year 1,320,751

Net Assets End of Year \$ 1,312,450

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 752,526	\$ 315,204	\$ 1,067,730
Investments	225,000	0	225,000
Restricted Cash and Cash Equivalents	19,720	-	19,720
<i>Total Assets</i>	<u>997,246</u>	<u>315,204</u>	<u>1,312,450</u>
 Fund Balances			
Reserved for Encumbrances	21,031	124,104	145,135
Reserved for Capital Improvement	19,720	-	19,720
Unreserved, Undesignated, Reported in:			
General Fund	956,495	-	956,495
Special Revenue Funds	-	93,443	93,443
Debt Service Funds	-	89,923	89,923
Capital Projects Funds	-	7,734	7,734
<i>Total Fund Balances</i>	<u>997,246</u>	<u>315,204</u>	<u>1,312,450</u>
 <i>Total Liabilities and Fund Balances</i>	 <u><u>\$ 997,246</u></u>	 <u><u>\$ 315,204</u></u>	 <u><u>\$ 1,312,450</u></u>

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Disbursements, and Changes
in Cash Basis Fund Balances Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,066,377	\$ -	\$ 1,066,377
Intergovernmental	1,964,475	297,774	2,262,249
Interest	23,801	492	24,293
Tuition and Fees	516,803	-	516,803
Extracurricular Activities	-	30,291	30,291
Charges for Services	-	85,722	85,722
Contributions and Donations	-	10,019	10,019
Miscellaneous	9,047	22,183	31,230
<i>Total Revenues</i>	<u>3,580,503</u>	<u>446,481</u>	<u>4,026,984</u>
Expenditures			
Current:			
Instruction:			
Regular	1,621,847	85,121	1,706,968
Special	165,343	158,130	323,473
Adult/Continuing	31,504	-	31,504
Support Services:			
Pupil	144,224	16,369	160,593
Instructional Staff	220,858	9,520	230,378
Board of Education	8,815	-	8,815
Administration	438,779	-	438,779
Fiscal	169,732	3,000	172,732
Business	5,003	-	5,003
Operation and Maintenance of Plant	328,680	3,385	332,065
Pupil Transportation	292,311	-	292,311
Central	-	1,045	1,045
Operation of Non-Instructional Services			
Food Service	-	124,246	124,246
Extracurricular Activities	98,218	34,120	132,338
Capital Outlay	4,750	14,585	19,335
Debt Service:			
Principal Retirement	-	50,000	50,000
Interest and Fiscal Charges	-	5,700	5,700
<i>Total Expenditures</i>	<u>3,530,064</u>	<u>505,221</u>	<u>4,035,285</u>
<i>Excess of Revenues Over (Under) Exp.</i>	<u>50,439</u>	<u>(58,740)</u>	<u>(8,301)</u>
<i>Net Change in Fund Balances</i>	50,439	(58,740)	(8,301)
<i>Fund Balances Beginning of Year</i>	<u>946,806</u>	<u>373,945</u>	<u>1,320,751</u>
<i>Fund Balances End of Year</i>	<u>\$ 997,245</u>	<u>\$ 315,205</u>	<u>\$ 1,312,450</u>

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 1,039,500	\$ 1,039,500	\$ 1,066,377	\$ 26,877
Intergovernmental	1,812,992	1,812,992	1,964,475	151,483
Interest	10,000	10,000	23,801	13,801
Tuition and Fees	568,800	568,800	516,803	(51,997)
Miscellaneous	11,400	11,400	9,047	(2,353)
<i>Total Revenues</i>	3,442,692	3,442,692	3,580,503	137,811
Expenditures				
Current:				
Instruction:				
Regular	1,617,986	1,657,986	1,629,342	28,644
Special	167,375	167,375	165,343	2,032
Adult/Continuing	36,000	36,000	32,272	3,728
Support Services:				
Pupils	149,381	149,381	144,416	4,965
Instructional Staff	227,380	240,380	221,018	19,362
Board of Education	9,510	9,510	8,815	695
Administration	450,081	450,081	439,778	10,303
Fiscal	182,236	182,236	170,207	12,029
Business	6,050	6,050	5,803	247
Operation and Maintenance of Plant	344,534	344,534	334,302	10,232
Pupil Transportation	298,070	298,070	296,831	1,239
Operation of Non-Instructional Services				
Extracurricular Activities	98,355	98,355	98,218	137
Capital Outlay	6,185	6,185	4,750	1,435
<i>Total Expenditures</i>	3,593,143	3,646,143	3,551,095	95,048
<i>Excess of Revenues Over (Under) Expenditures</i>	(150,451)	(203,451)	29,408	232,859
<i>Net Change in Fund Balance</i>	(150,451)	(203,451)	29,408	232,859
<i>Fund Balance Beginning of Year</i>	915,300	915,300	915,300	-
Prior Year Encumbrances Appropriated	31,506	31,506	31,506	-
<i>Fund Balance End of Year</i>	\$ 796,355	\$ 743,355	\$ 976,214	\$ 232,859

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets - Cash Basis

Fiduciary Funds

For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 500	\$ 15,922
Total Assets	<u>500</u>	<u>15,922</u>
Liabilities		
Current Liabilities:		
Undistributed Monies		15,922
Total Liabilities		<u>15,922</u>
Net Assets		
Held in Trust for Scholarships	500	
Total Net Assets	<u>\$ 500</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Donation	\$ 500
Deductions	
Payments in Accordance with Trust Agreement	500
<i>Change in Net Assets</i>	-
<i>Net Assets Beginning of Year</i>	500
<i>Net Assets End of Year</i>	\$ 500

See accompanying notes to the basic financial statements

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1953. The School District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The School District is the 603th smallest in the State of Ohio (among 612 school districts) in terms of enrollment. This Board controls the School District's two instructional/support facilities staffed by 30 non-certificated employees, 39 certificated full time teaching personnel and 3 administrative employees to provide services to 529 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fairlawn Local 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 organizations' 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. There are no component units of the Fairlawn Local School District.

The School District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), jointly governed organizations. The School District is also associated with the Ohio Association of School Business Officials Group Rating Plan, SOEPC property and liability insurance pool and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 15 and 16 to the financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Fund Accounting

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

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

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

Debt Service Fund The debt service fund accounts for resources received from property taxes to pay school improvement general obligation bond principal and interest.

Capital Projects Fund The capital projects fund accounts for resources received from transfer from the general fund to pay for capital improvement projects

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

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

Government-wide Financial Statements: The statement of net assets and the statement of activities display information about the School District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function.

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

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

C. Cash, Cash Equivalents and Investments

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

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2005 was \$23,801, including \$5,713 assigned from other School District funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for textbooks and instructional materials and capital improvements. See Note 14 for additional information regarding these set-asides.

E. Inventory and Prepaid Items

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

F. Capital Assets

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

G. Compensated Absences

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

H. Long-term Obligations

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

I. Fund Balance Designations and Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. The District has reserved fund equity for encumbrances and capital improvements.

J. Net Assets

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Interfund Activity

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

The statements report interfund loans as advances when made or repaid. There were no unpaid advances receivable or payable.

L. Budgetary Data

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

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

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For Fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosure." GASB Statement No. 40 establishes and modifies the disclosure requirements to investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES (CONTINUED)

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amounts of net assets restricted by enabling legislation.

4. CHANGE IN BASIS OF ACCOUNTING

Last year, the District reported fund financial statements by fund type using the cash basis of accounting. In implementing the other comprehensive basis of accounting described in Note 2, the fund financial statements now present each major fund in a separate column with the non-major funds aggregated and presented in a single column, rather than a column for each fund type. The District made the following modifications to the cash basis of accounting in implementing the modified cash basis of accounting:

Fund	Fund Balance at June 30, 2004	General Fund	Other Gov't Funds	Private Purpose Trust Funds	Agency Funds	Total
General	\$ 951,066	\$ 946,806	\$ 4,260			\$ 951,066
Special Revenue	69,898		69,898			69,898
Debt Service	130,591		130,591			130,591
Capital Projects	134,787		134,787			134,787
Expendable Trust	1,084		584	500		1,084
Enterprise Fund	33,825		33,825			33,825
Agency	31,714				31,714	31,714
Adjusted June 30, 2004	\$1,352,965	\$ 946,806	\$373,945	\$ 500	\$ 31,714	\$ 1,352,965

5. COMPLIANCE

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

6. PROPERTY AND INCOME TAXES

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY AND INCOME TAXES (CONTINUED)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2005 was \$38,405 in the general fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/ Residential and Other Real Estate	\$28,934,530	84.81 %	\$28,934,530	85.76 %
Public Utility Personal	4,567,570	13.38	4,399,450	13.04
Tangible Personal Property	<u>613,925</u>	<u>1.81</u>	<u>403,680</u>	<u>1.20</u>
Total	<u>\$34,116,025</u>	<u>100.00 %</u>	<u>\$33,737,660</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$28.1		\$28.1	

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY AND INCOME TAXES (CONTINUED)

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

7. DEPOSITS AND INVESTMENTS

Ohio law restricts deposits and investments to the following:

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

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

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

Deposits At year-end, the carrying amount of the School District's deposits was \$1,103,872 and the bank balance was \$1,129,628. Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2005, \$200,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the School District's remaining bank balance of \$929,628 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

7. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As of June 30, 2005, the School District had the following investments.

	Carrying Value	Maturity
Certificate of Deposit	100,000	02/25/2006
Federal National MTG ASSN	125,000	04/05/2007
Total Investments	225,000	

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

8. INTERFUND TRANSFERS

There were no interfund cash transfers during the year ended June 30, 2005.

9. RISK MANAGEMENT

A, Commercial Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

Buildings and Contents – Replacement cost	\$12,575,000
General Liability - Per Occurrence	1,000,000
General Liability - Aggregate	8,000,000
Automobile Liability	1,000,000
Uninsured Motorists	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 coverage from the prior fiscal year.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

9. RISK MANAGEMENT (CONTINUED)

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials (OASBO) Compensation Group Rating Program, an insurance purchasing pool (Note 16). The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Shakely Uniservice Inc., provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

C. Employee Medical Benefits

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 16) consisting of seven school districts and an educational service center. The District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Fort Dearborn Life for life insurance benefits.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a financial report. This can be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members must contribute 10 percent of their annual covered salary and the School District must contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$93,744, \$89,208 and \$86,136, respectively; 100 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

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 provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a financial report, obtainable by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 these active members who die before retirement may qualify for survivor benefits. 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$240,924, \$214,740, and \$216,154, respectively; 100 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were not material.

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (CONTINUED)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$17,209 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$24,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$84,495.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2005 will not have a material adverse effect on the School District.

B. Litigation

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

13. LONG TERM LIABILITIES

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

<u>School Improvement</u>	<u>Principal Outstanding 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/05</u>	<u>Amount Due in One Year</u>
Bonds 1983 - 9.5%	\$80,000	0	\$40,000	\$40,000	\$40,000

On April 1, 1983, Fairlawn Local School District issued \$900,000 in voted general obligation bonds for the purpose of a school improvement to the high school building. The bonds were issued for a twenty-two year period with final maturity at December 1, 2005. This bond will be paid from tax revenue in the debt service fund.

During fiscal 2005, the District paid out \$10,000 in principal for a past debt. The payment had previously been made by the District but the other party made an error. The initial payment was never processed, as such, the District had to issue another payment.

The School District's overall legal debt margin was \$3,036,390 with an energy conservation debt margin of \$303,639, and un-voted debt margin of \$33,738 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$40,000	\$1,900

14. SET-ASIDE CALCULATIONS

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct 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 for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2004	\$(37,881)	\$ 5,337
Current Year Set Aside Requirement	70,746	70,746
Current Year Offsets	0	0
Qualifying Expenditures	(87,541)	(56,363)
Set Aside Reserve Balance June 30, 2005	<u>\$(54,676)</u>	<u>\$19,720</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

14. SET-ASIDE CALCULATIONS (CONTINUED)

The textbooks and instructional materials set-aside expenditures in excess of the set-aside requirements may be carried forward to offset future years set-aside requirements.

The Bus Reserve set aside has a balance of \$11,941 as of June 30, 2005.

15. JOINTLY GOVERNED ORGANIZATIONS

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

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the School District. The School District paid WOCO \$25,385 for services provided during the fiscal year 2005. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Cooperative - The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to 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. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. 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 institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as 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. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Television Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

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

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

Shelby County Local Professional Development Committee - The School District is a participant in the Shelby County Local Professional Development Committee (the Committee), which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve-member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

16. PURCHASING POOLS

Workers' Compensation Group Rating Plan

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials (OASBO) Compensation Group Rating Program, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Shakely Uniservice Inc., provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

16. PURCHASING POOLS (CONTINUED)

Shelby County Schools Consortium

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

Southwestern Ohio Educational Purchasing Council Insurance Program – The School District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to 6 times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2005, this program was expanded to include 33 school districts with combined student enrollment of 62,649, and combined values of \$1,425,139,321. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

- Retain a portion of the predictable losses
- Transfer a portion of the catastrophic risk
- Broaden the districts insurance program coverages
- Budget for know maximum costs and
- Insulate the district from future market upheavals

The District paid \$33,940 to the group during fiscal year 2005 for Property and Casualty Insurance. Cambridge Integrated Services Group, Inc. is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

17. STATE SCHOOL FUNDING DECISION

On December 11, 2002 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . . “ The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

18. CONTRACTUAL COMMITMENTS

At June 30, 2005 the School District had \$125,173 in contractual commitments for the purchase of a modular classroom within the School District. The table below details the commitments.

Commitments	
Apple Mobile Leasing	\$ 109,400
Meyer Electric	6,763
Low Voltage	4,374
Regal Plumbing	4,636
Total	<u>\$ 125,173</u>

Perry & Associates
Certified Public Accountants, A.C.

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Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
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(740) 373-0056

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

February 27, 2007

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

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 the Fairlawn Local School District, Shelby County (the School District), as of and for the years ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 2007 wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that would be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated February 27, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School 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.

Fairlawn Local School District
Shelby County
Independent Accountant's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Required by *Governmental Auditing Standards*
Page 2

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated February 27, 2007 we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**FAIRVIEW LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot, be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District by be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their financial statements in accordance with GAAP.

Client Response:

The School District has elected not to prepare GAAP basis financial reports due to cost concerns.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC § 117.38 and OAC § 117-2-03 (B) – failure to prepare annual financial statements in accordance with generally accepted accounting principles (GAAP)	No	Not Corrected - repeated as finding 2005-001
2004-002	Lack of sufficient records of ala carte revenues and inventory	Yes	



Mary Taylor, CPA
Auditor of State

FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007