

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
Single Audit
For the Year Ended June 30, 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • 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, 2010 through June 30, 2011. 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.

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

Dave Yost
Auditor of State

January 6, 2012

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

December 9, 2011

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, Ohio (the School District), as of and for the year ended June 30, 2011, 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 amount 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 opinion.

Ohio Administrative Code Section 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, 2011, and the respective changes in cash financial position and respective budgetary comparison for the General Fund thereof for the year then ended in the conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, 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 internal 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 School District's basic financial statements taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures 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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
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, 2011, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for 2011 are as follows:

In total, net assets of governmental activities increase by \$119,495. The fund most affected by the increase in cash and cash equivalents was the General Fund. The Building Fund decreased by \$266,789. The District finished a storage/hitting building which was paid by the Building Fund.

The School District's General Fund receipts, those being primarily property and income tax and intergovernmental receipts were 75% of the total General Fund cash received during the fiscal year. Dependence on these three revenue sources is significant.

The School District received \$1,014,000 in open enrollment tuition revenue from the state. This represents 21% of the total General Fund cash received during the fiscal year. Open enrollment is a significant revenue source for the General Fund.

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. 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. The Bond Retirement Fund (003), Building Fund (004) and OSFC Building Fund (010) are also major funds in 2011.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2011, 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 School District'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 funds. While the School District uses many funds to account for its financial transactions, the General Fund, Debt Service Fund, Building Fund and OSFC Fund are 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'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to fiscal year 2009.

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

	2011	2010
Assets:		
Current and Other Assets	\$ 4,330,628	\$ 4,211,133
Total Assets	4,330,628	4,211,133
Net Assets:		
Restricted	1,399,862	1,615,839
Unrestricted	2,930,766	2,595,294
Total Net Assets	\$ 4,330,628	\$ 4,211,133

The total net assets, for governmental activities, increased by \$119,495. The primary reasons contributing to the increases in cash balance are as follows:

1. The General Fund increased by \$352,972. The main reason is the School District received additional Federal stimulus aid and had an increase in open enrollment students.
2. The School District finished its remaining construction projects. This resulted in the OSFC fund to decrease by \$54,634 and Building fund to decrease by \$266,789.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

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

	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 1,297,277	\$ 1,330,060
Operating Grants and Contributions	762,733	558,490
Capital Grants and Contributions	7,363	319,722
General Revenues:		
Property Taxes	1,240,116	1,261,183
Income Taxes	298,811	295,189
Grants and Entitlements	2,396,587	2,533,179
Interest	7,504	72,479
Miscellaneous	27,709	64,120
Total Revenues	<u>6,038,100</u>	<u>6,434,422</u>
Program Expenses		
Instruction:		
Regular	\$ 2,006,760	\$ 1,988,136
Special	476,616	411,790
Adult/Continuing	836	6,392
Support Services:		
Pupil	215,029	209,879
Instructional Staff	424,174	386,420
Board of Education	9,829	10,953
Administration	559,479	528,538
Fiscal	254,088	215,034
Business	5,412	5,137
Operation and Maintenance of Plant	537,745	469,253
Pupil Transportation	342,586	384,968
Central	-	2,412
Operational of Non-Instructional	224,069	223,764
Extracurricular Activities	188,281	181,294
Capital Outlay	335,813	7,165,533
Debt Service:		
Principal	135,000	130,000
Interest and Fiscal Charges	215,388	220,689
Total Program Expenses	<u>5,931,105</u>	<u>12,540,192</u>
Other Financing Sources (Uses)		
Sale of Fixes Asset	12,500	-
Transfers In	17,500	142,500
Transfers Out	(17,500)	(142,500)
Total Other Financing Sources (Uses)	<u>12,500</u>	<u>-</u>
Increase (Decrease) in Net Assets	119,495	(6,105,770)
Net Assets Beginning of Year	<u>4,211,133</u>	<u>10,316,639</u>
Net Assets End of Year	<u>\$ 4,330,628</u>	<u>\$ 4,211,133</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

In 2011, program receipts represent a total of 34% of total receipts. This is primarily due to the School District having a high number of incoming open enrollment students. Open enrollment revenue consists of 17% of total receipts. Also, School District is receiving state OSFC building fund revenue. Restricted intergovernmental receipts, tuition, food service, fees and extracurricular activities also make up program receipts

The major program disbursement for governmental activities is for instruction – 42%. Support services, which include administration, fiscal, operation and maintenance of plant, and pupil transportation expenses represent a significant amount of the School District's governmental expenses. Debt service accounted for 6% of all governmental expenses.

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 2011	Net Cost of Service 2011	Total Cost of Service 2010	Net Cost of Service 2010
Instruction:				
Regular	\$ 2,006,760	(\$677,695)	\$ 1,988,136	(\$808,401)
Special	476,616	(152,115)	411,790	(53,058)
Adult/Continuing	836	(836)	6,392	(6,392)
Support Services:				
Pupil	215,029	(197,029)	209,879	(198,739)
Instructional Staff	424,174	(403,038)	386,420	(384,980)
Board of Education	9,829	(9,829)	10,953	(10,953)
Administration	559,479	(559,479)	528,538	(528,538)
Fiscal	254,088	(251,088)	215,034	(214,446)
Business	5,412	(5,412)	5,137	(5,137)
Operation and Maintenance of Plant	537,745	(537,745)	469,253	(468,687)
Pupil Transportation	342,586	(339,976)	384,968	(382,122)
Central	-	-	2,412	-
Operation of Non-Instructional	224,069	24,048	223,764	5,610
Extracurricular Activities	188,281	(139,955)	181,294	(144,429)
Capital Outlay	335,813	(318,164)	7,165,533	(6,835,525)
Debt Service:				
Principal	135,000	(135,000)	130,000	(130,000)
Interest and Fiscal Charges	215,388	(160,419)	220,689	(166,123)
Total	\$5,931,105	(\$3,863,732)	\$12,540,192	(\$10,331,920)

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
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 funds are the General Fund, Debt Service Fund, Building Fund and OSFC Building Fund. The net change in fund balance in the General Fund reflects an increase of \$335,472, Debt Service Fund an increase of \$64,579, Building Fund a decrease of \$266,789, and OSFC Building Fund a decrease of \$54,634.

- The School District has been able to maintain enrollment and keep state funding consistent with prior years. The number of open enrollment students continues to be higher allowing the School District to increase revenue.
- The School District has been able to control salary and benefit costs.

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 funds are the General Fund, Debt Service Fund, Building Fund and OSFC Building Fund. During fiscal year 2011, the School District amended its General Fund budget as needed. The School District uses a site based budgeting to allow flexibility for each individual School District management.

The original appropriations of the General Fund were increased by \$54,600 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 issued bonds for \$5,800,000 in March 2007. The bonds will be repaid by the voters approving a 10.34 mill levy in November 2006. The School District repaid \$135,000 in principal in 2011.

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 School District is very heavily reliant on state funding. The School District has very little growth in its property valuation. The biggest concern is the State of Ohio budgetary problems and the effect it will have on the School District.

Contacting the School District'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, 2011*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,330,628</u>
<i>Total Assets</i>	<u><u>4,330,628</u></u>
Net Assets	
Restricted for:	
Capital Projects	877,332
Debt Service	306,984
Other Purposes	215,546
Unrestricted	<u>2,930,766</u>
<i>Total Net Assets</i>	<u><u>\$ 4,330,628</u></u>

See accompanying notes to the financial statements.

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Activities-Cash Basis
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 2,006,760	\$ 1,045,256	\$ 283,809	-	\$ (677,695)
Special	476,616	89,563	234,938	-	(152,115)
Adult/Continuing	836	-	-	-	(836)
Support Services:					
Pupil	215,029	-	18,000	-	(197,029)
Instructional Staff	424,174	-	21,136	-	(403,038)
Board of Education	9,829	-	-	-	(9,829)
Administration	559,479	-	-	-	(559,479)
Fiscal	254,088	-	3,000	-	(251,088)
Business	5,412	-	-	-	(5,412)
Operation and Maintenance of Plant	537,745	-	-	-	(537,745)
Pupil Transportation	342,586	-	2,610	-	(339,976)
Operation of Non-Instructional	224,069	114,132	133,985	-	24,048
Extracurricular Activities	188,281	48,326	-	-	(139,955)
Capital Outlay	335,813	-	10,286	7,363	(318,164)
Debt Service:					
Principal	135,000	-	-	-	(135,000)
Interest and Fiscal Charges	215,388	-	54,969	-	(160,419)
Totals	\$ 5,931,105	\$ 1,297,277	\$ 762,733	\$ 7,363	\$ (3,863,732)

General Revenues

Property Taxes Levied for:	
General Purposes	\$ 874,067
Debt Service	366,049
Income Taxes Levied for:	
General Purposes	298,811
Grants and Entitlements not Restricted to Specific Programs	2,396,587
Gain on Sale of Capital Asset	12,500
Interest Income	7,504
Miscellaneous	27,709
Total General Revenues	3,983,227
Change in Net Assets	119,495
<i>Net Assets Beginning of Year</i>	<u>4,211,133</u>
<i>Net Assets End of Year</i>	<u><u>\$ 4,330,628</u></u>

See accompanying notes to the financial statements.

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	OSFC	Building	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,930,766	\$ 306,984	\$ 75,917	\$ 491,047	\$ 525,914	\$ 4,330,628
<i>Total Assets</i>	<u>2,930,766</u>	<u>306,984</u>	<u>75,917</u>	<u>491,047</u>	<u>525,914</u>	<u>4,330,628</u>
Fund Balances						
Restricted	-	306,984	75,917	-	-	382,901
Committed	10,718	-	-	5,111	5,443	21,272
Assigned	-	-	-	485,936	520,471	1,006,407
Unassigned	2,920,048	-	-	-	-	2,920,048
<i>Total Fund Balances</i>	<u>2,930,766</u>	<u>306,984</u>	<u>75,917</u>	<u>491,047</u>	<u>525,914</u>	<u>4,330,628</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,930,766</u>	<u>\$ 306,984</u>	<u>\$ 75,917</u>	<u>\$ 491,047</u>	<u>\$ 525,914</u>	<u>\$ 4,330,628</u>

See accompanying notes to the financial statements.

FAIRLAWN LOCAL SCHOOL DISTRICT
*Statement of Cash Receipts, Cash Disbursements, and Changes
in Fund Cash Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2011*

	General	Bond Retirement	OSFC	Building	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 1,172,878	\$ 366,049	\$ -	\$ -	\$ -	\$ 1,538,927
Intergovernmental	2,396,587	54,969	7,363	-	707,764	3,166,683
Interest	6,275	-	875	299	55	7,504
Tuition and Fees	1,134,818	-	-	-	-	1,134,818
Extracurricular Activities	-	-	-	-	16,718	16,718
Charges for Services	-	-	-	-	145,741	145,741
Miscellaneous	18,940	2,693	-	-	6,076	27,709
<i>Total Revenues</i>	<u>4,729,498</u>	<u>423,711</u>	<u>8,238</u>	<u>299</u>	<u>876,354</u>	<u>6,038,100</u>
Expenditures						
Current:						
Instruction:						
Regular	1,712,596	-	-	-	294,164	2,006,760
Special	241,236	-	-	-	235,380	476,616
Adult/Continuing	836	-	-	-	-	836
Support Services:						
Pupil	181,421	-	-	-	33,608	215,029
Instructional Staff	399,964	-	-	-	24,210	424,174
Board of Education	9,829	-	-	-	-	9,829
Administration	559,479	-	-	-	-	559,479
Fiscal	242,344	8,744	-	-	3,000	254,088
Business	5,412	-	-	-	-	5,412
Operation and Maintenance of Plant	537,454	-	-	-	291	537,745
Pupil Transportation	339,976	-	-	-	2,610	342,586
Operation of Non-Instructional Services	-	-	-	-	224,069	224,069
Extracurricular Activities	140,126	-	-	-	48,155	188,281
Capital Outlay	5,853	-	62,872	267,088	-	335,813
Debt Service:						
Principal Retirement	-	135,000	-	-	-	135,000
Interest and Fiscal Charges	-	215,388	-	-	-	215,388
<i>Total Expenditures</i>	<u>4,376,526</u>	<u>359,132</u>	<u>62,872</u>	<u>267,088</u>	<u>865,487</u>	<u>5,931,105</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>352,972</u>	<u>64,579</u>	<u>(54,634)</u>	<u>(266,789)</u>	<u>10,867</u>	<u>106,995</u>
Other Financing Sources (Uses)						
Sale of Fixed Assets	-	-	-	-	12,500	12,500
Transfers In	-	-	-	-	17,500	17,500
Transfers Out	(17,500)	-	-	-	-	(17,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(17,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>12,500</u>
<i>Net Change in Fund Balances</i>	335,472	64,579	(54,634)	(266,789)	40,867	119,495
<i>Fund Balances Beginning of Year</i>	<u>2,595,294</u>	<u>242,405</u>	<u>130,551</u>	<u>757,836</u>	<u>485,047</u>	<u>4,211,133</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,930,766</u>	<u>\$ 306,984</u>	<u>\$ 75,917</u>	<u>\$ 491,047</u>	<u>\$ 525,914</u>	<u>\$ 4,330,628</u>

See accompanying notes to the financial statements.

Fairlawn Local School District
Statement of Cash Receipts, Cash Disbursements and Changes
In Fund Cash Balance - Budget (Non-GAAP Basis) and Actual-Cash Basis
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,120,000	\$ 1,120,000	\$ 1,172,878	\$ 52,878
Intergovernmental	2,380,000	2,380,000	2,396,587	16,587
Interest	6,200	6,200	6,275	75
Tuition and Fees	1,113,625	1,113,625	1,134,818	21,193
Miscellaneous	16,000	16,000	18,940	2,940
<i>Total Revenues</i>	4,635,825	4,635,825	4,729,498	93,673
Expenditures				
Current:				
Instruction:				
Regular	1,671,511	1,722,511	1,712,596	9,915
Special	242,000	242,000	241,236	764
Adult/Continuing	1,000	1,000	836	164
Support Services:				
Pupils	182,000	182,000	181,421	579
Instructional Staff	400,000	400,000	399,964	36
Board of Education	10,000	10,000	9,829	171
Administration	560,000	560,000	559,479	521
Fiscal	250,000	250,000	242,344	7,656
Business	10,000	10,000	5,412	4,588
Operation and Maintenance of Plant	540,000	540,000	537,454	2,546
Pupil Transportation	340,000	340,000	339,976	24
Extracurricular Activities	151,204	154,804	140,126	14,678
Capital Outlay	7,000	7,000	5,853	1,147
<i>Total Expenditures</i>	4,364,715	4,419,315	4,376,526	42,789
<i>Excess of Revenues Over (Under) Expenditures</i>	271,110	216,510	352,972	136,462
Other Financing Sources (Uses)				
Transfers Out	(17,500)	(17,500)	(17,500)	-
<i>Total Other Financing Sources (Uses)</i>	(17,500)	(17,500)	(17,500)	-
<i>Net Change in Fund Balance</i>	253,610	199,010	335,472	136,462
<i>Fund Balance Beginning of Year</i>	2,595,294	2,595,294	2,595,294	-
Prior Year Encumbrances Appropriated	23,032	23,032	23,032	-
<i>Fund Balance End of Year</i>	\$ 2,871,936	\$ 2,817,336	\$ 2,953,798	\$ 136,462

FAIRALWN LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets- Cash Basis

Fiduciary Funds

For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$ 500</u>	<u>\$ 35,487</u>
Liabilities		
Undistributed Monies	<u>-</u>	<u>35,487</u>
<i>Total Liabilities</i>	<u>-</u>	<u>35,487</u>
Net Assets		
Restricted for Other Purposes	<u>500</u>	<u>-</u>
<i>Total Net Assets</i>	<u><u>\$ 500</u></u>	<u><u>\$ -</u></u>

See accompanying notes to the financial statements.

Fairlawn Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Donations	\$ 500
Deductions	
Noninstructional Services	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 financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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 530th smallest in the State of Ohio (among 612 school districts) in terms of enrollment. This Board controls the School District's one instructional/support facility staffed by 37 non-certificated employees, 37 certificated full time teaching personnel and 3 administrative employees to provide services to 605 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), Shelby County Local Professional Development Committee, Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), and West Central Ohio Special Education Regional Resource Center (SERRC), 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 13 and 14 to the modified cash basis financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The School 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 School District classifies each fund as either governmental or fiduciary.

Governmental: The School 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.

Bond Retirement Fund The Bond Retirement Fund accounts for resources received from property taxes to pay school improvement general obligation bond principal and interest.

OSFC Fund The OSFC Fund accounts for resources received from the sale of note/bonds, interest, governmental revenue, and transfers from the General Fund to pay for capital improvement projects

Building Fund The Building Fund accounts for resources received from the sale of note/bonds, interest, governmental revenue, and transfers from the General Fund to pay for capital improvement projects

Fiduciary Funds: Fiduciary funds account for cash and investments where the School 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 School 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 School 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 FINANCIAL STATEMENTS
JUNE 30, 2011
(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 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 and Cash Equivalents

The School District deposits 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 School District values investments and cash equivalents at cost. For presentation on the financial statements, the School 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 2011 were \$6,275 including \$3,527 assigned from other School District funds.

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 11 for additional information regarding these set-asides.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 School 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

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Balance (Continued)

Assigned Amounts in the assigned fund balance classification are 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 the School District Board of Education.

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

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

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.

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. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the Board of Education's control that are either unusual in nature or infrequent in occurrence.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School 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 School District can be fined and various other administrative remedies may be taken against the School District.

4. 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.

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 2010 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

4. PROPERTY AND INCOME TAXES (Continued)

Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2010, were levied after April 1, 2010 and are collected in 2011 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 2011 (other than public utility property) represents the collection of 2011 taxes. Tangible personal property taxes received in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets. 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, 2011, are available to finance fiscal year 2011 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, 2011 was \$68,080 in the General Fund and \$29,029 in the bond Retirement Fund.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	<u>2010 Second - Half Collections</u>		<u>2011 First - Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/ Residential and Other Real Estate	\$ 36,117,950	89.43%	\$ 36,327,530	89.24%
Public Utility Personal	4,238,080	10.49	4,379,320	10.76
Tangible Personal Property	<u>32,360</u>	<u>.21</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 40,338,390</u>	<u>100.00%</u>	<u>\$ 40,706,850</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$38.17		\$38.17	

The School District levies a voted income tax of .75% 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

5. 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 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 \$4,366,615 and the bank balance was \$4,380,612. 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, 2010, \$750,000 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 \$3,581,353 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within five 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.

6. INTERFUND TRANSFERS

Interfund cash transfers for the year ended June 30, 2011 were as follows:

Transfer from	Transfer to	Amount
General Fund	Classroom Maintenance Fund	\$ 17,500
Total		\$ 17,500

The transfer from General Fund to Classroom Maintenance Fund is the School District .5 mill maintenance requirement to receive Ohio School Facilities Building money. This transfer is required for 23 years.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

7. 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 2011, 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	\$ 20,000,000
General Liability - Per Occurrence	1,000,000
General Liability –Aggregate	8,000,000
Automobile Liability	1,000,000
Uninsured Motorists	8,000,000

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.

B. Workers' Compensation

For fiscal year 2011, the School District participated in the Shakely Compensation Group Rating Program, an insurance purchasing pool (Note 14). 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 School District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) 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 Genworth Life for life insurance benefits

8. 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. It is also posted on SERS website at www.ohsers.org under Employers/Audit Resources.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members must contribute 10% of their annual covered salary and the School District must contribute at an actuarially determined rate. The current School District rate is 14% 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 12.78%. The remaining 1.22% is allocated to the Health Care and Medicare B funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$133,896, \$118,344 and \$114,486 respectively; 100% cash obligation has been contributed for fiscal year 2011, 2010, and 2009.

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.

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% 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, 2011, plan members were required to contribute 10.0% of their annual covered salaries. The School District was required to contribute 14%. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2011, 2010, and 2009 were \$285,828, \$260,520, and \$262,332 respectively; 100 percent of cash obligation has been contributed for fiscal year 2011, 2010, and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were not material.

9. 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.

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% of covered payroll. For the fiscal year ended June 30, 2011, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$19,749 for fiscal year 2011.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2010, (the latest information available) the balance in the Fund was \$2. billion. For the year ended June 30, 2010 net health care costs paid by STRS were \$298,110,000 and STRS had 129,659 eligible benefit recipients.

For SERS, 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 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month 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 2010, the actuarially required allocation was .76%. Fairlawn Local School contributions for the years ended June 30, 2011, 2010, and 2009 were \$7,269, \$6,424, and \$6,215, respectively.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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, 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, 2010, the health care allocation was .46%. 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 provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, 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. Fairlawn Local School contributions for the years ended June 30, 2011, 2010, and 2009 were \$4,400, \$3,888, and \$3,762, respectively.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained 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'.

10. 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, 2011 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 FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

11. 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.

	Textbooks/ Instructional Materials	Capital Improvements
Balance June 30, 2010	\$(168,652)	\$ (9,655,036)
Current Year Set Aside Requirement	88,308	88,308
Current Year Offsets	-	-
Qualifying Expenditures	(105,886)	(94,101)
Set Aside Reserve Balance June 30, 2011	\$(186,230)	\$ (9,660,829)

The Textbooks/Instructional materials and Capital Improvements set-aside expenditures in excess of the set-aside requirements may be carried forward to offset future year's set-aside requirements.

The Bus Reserve set aside has a balance of \$0 as of June 30, 2011.

12. LONG TERM LIABILITIES

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

School Improvement	Principal Outstanding 6/30/2010	Additions	Reductions	Principal Outstanding 6/30/2011	Amount Due in One Year
Serial Bonds	\$ 910,000	\$ -	\$ 135,000	\$ 775,000	\$ 145,000
Term Bonds	4,445,000	-	-	4,445,000	-
Capital Accretion Bonds	100,000	-	-	100,000	-
Accretion on Capital Bonds	65,340	21,780	-	87,120	-
Total	\$5,520,340	\$ 21,780	\$ 135,000	\$5,407,120	\$ 145,000

On March 27, 2008, Fairlawn Local School District issued \$5,799,999 in voted general obligation bonds for the purpose of a building a new K-12 school building. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2035. The bond issue included serial, term, and capital appreciation bonds, in the amounts of \$1,255,000, \$4,445,000, and \$100,000. The bonds will be retired from the Bond Retirement Fund, with a portion of the proceeds of a \$10.34 mil voted property tax levy.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

12. LONG TERM LIABILITIES (Continued)

<u>Year Ended</u>	<u>General Obligation Term/Serial Bonds</u>			<u>General Obligation Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 145,000	\$ 209,788	\$ 354,788	\$ -	\$ -	\$ -
2013	150,000	203,889	353,889	-	-	-
2014	155,000	197,789	352,789	-	-	-
2015	160,000	191,488	351,488	-	-	-
2016	165,000	184,989	349,989	-	-	-
2017-2021	545,000	876,340	1,421,340	100,000	\$250,000	350,000
2022-2026	1,060,000	696,843	1,756,843	-	-	-
2027-2031	1,290,000	461,116	1,751,166	-	-	-
2032-2036	<u>1,550,000</u>	<u>166,001</u>	<u>1,716,001</u>	-	-	-
Total	<u>\$5,220,000</u>	<u>\$3,403,686</u>	<u>\$8,408,293</u>	<u>\$100,000</u>	<u>\$250,001</u>	<u>\$350,000</u>

The School District's overall legal debt margin was \$3,663,616 with an energy conservation debt margin of \$366,361 and un-voted debt margin of \$40,707 at June 30, 2011.

Term Bonds

The Current Interest Term Bonds maturing on December 1, 2019 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2018	\$175,000

The remaining principal amount of such Current Interest Bonds (\$180,000) will be paid at stated maturity on December 1, 2019.

The Current Interest Term Bonds maturing on December 1, 2021 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2020	\$190,000

The remaining principal amount of such Current Interest Bonds (\$195,000) will be paid at stated maturity on December 1, 2021.

The Current Interest Term Bonds maturing on December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2022	\$205,000

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

12. LONG TERM LIABILITIES (Continued)

Term Bonds (Continued)

The remaining principal amount of such Current Interest Bonds (\$210,000) will be paid at stated maturity on December 1, 2023

The Current Interest Term Bonds maturing on December 1, 2025 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2024	\$220,000

The remaining principal amount of such Current Interest Bonds (\$230,000) will be paid at stated maturity on December 1, 2025.

The Current Interest Term Bonds maturing on December 1, 2027 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2026	\$240,000

The remaining principal amount of such Current Interest Bonds (\$245,000) will be paid at stated maturity on December 1, 2027.

The Current Interest Term Bonds maturing on December 1, 2031 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2028	\$255,000
2029	\$270,000
2030	\$280,000

The remaining principal amount of such Current Interest Bonds (\$290,000) will be paid at stated maturity on December 1, 2031.

The Current Interest Term Bonds maturing on December 1, 2035 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2032	\$300,000
2033	\$315,000
2034	\$330,000

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

12. LONG TERM LIABILITIES (Continued)

Term Bonds (Continued)

The remaining principal amount of such Current Interest Bonds (\$315,000) will be paid at stated maturity on December 1, 2035.

The Current Interest Bonds maturing on or after December 1, 2017 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date on or after June 1, 2017, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The Capital Appreciation Bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$175,000 each year representing interest that accretes over the term of the bonds. The accreted value of the capital appreciation bonds at June 30, 2011 is \$87,120.

13. 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 \$44,605 for services provided during the fiscal year 2011. 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 150 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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. 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

14. PURCHASING POOLS

Workers' Compensation Group Rating Plan - For fiscal year 2011, the School District participated in the Shakely Compensation Group Grating 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.

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 six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2010, this program was expanded to include 37 school districts with combined student enrollment of 76,816, and combined values of \$2,057,691,300. 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

The School District paid \$28,967 to the group during fiscal year 2011 for Property and Casualty Insurance. Specialty Claim is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

15. 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**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Milk Program	10.556	\$ 712	\$ 712
School Breakfast Program	10.553	28,139	28,139
National School Lunch Program			
Cash Assistance	10.555	102,465	102,465
Non-Cash Assistance (Food Distribution)	10.555	10,459	10,459
National School Lunch Program Subtotal		<u>112,924</u>	<u>112,924</u>
Total - Child Nutrition Cluster		<u>141,775</u>	<u>141,775</u>
<i>Cash Assistance Subtotal</i>		131,316	131,316
<i>Non-Cash Assistance (Food Distribution) Subtotal</i>		10,459	10,459
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	84,278	89,221
Special Education Cluster			
Special Education Grants to States	84.027	114,815	114,815
Special Education Grants to States,- ARRA	84.391	64,507	67,443
Special Education Preschool Grants to States	84.173	1,171	1,171
Total Special Education Cluster		<u>180,493</u>	<u>183,429</u>
Title IV - Safe and Drug-Free Schools and Communities	84.186	-	-
Title II-D - Education Technology State Grants	84.318	179	199
Title II-A - Improving Teacher Quality State Grants	84.367	21,418	23,151
Race to the Top Grants	84.395	9,764	9,902
State Fiscal Stabilization Fund - Education State Grants- ARRA	84.394	186,570	186,570
<i>Direct from the Federal Government</i>			
Rural Educational Assistant Programs (REAP)	84.350	<u>36,630</u>	<u>42,352</u>
Total - United States Department of Education		<u>519,332</u>	<u>534,824</u>
Total Federal Receipts and Expenditures		<u><u>\$ 661,107</u></u>	<u><u>\$ 676,599</u></u>

The accompanying notes to this schedule are and integral part of this schedule.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE 2 – FOOD DONATION

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE 3 – CHILD NUTRITION CLUSTER

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

NOTE 4 – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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

December 9, 2011

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 **Fairlawn Local School District**, Shelby County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 9, 2011, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of audit findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of audit findings to be a material weakness.

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. 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 that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of audit findings as finding 2011-001.

We also noted a matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated December 9, 2011.

The School District's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Respectfully Submitted,



Perry and Associates
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**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 9, 2011

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

To the Board of Education:

Compliance

We have audited the compliance of **Fairlawn Local School District**, Shelby County, Ohio (the School 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 its major federal program for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of audit findings identifies the School District's major federal programs. The School 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 express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 School District's compliance with those 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 School District's compliance with those requirements.

In our opinion, the 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, 2011.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School 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 expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, 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 intend this report solely for the information and use of management, members of the Board of Education, federal awarding agencies and pass-through entities and others within the School District. It is not intended for anyone other than these specified parties.

Respectfully submitted,



Perry and Associates
Certified Public Accountants, A.C.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
FOR THE YEAR ENDED JUNE 30, 2011
SCHEDULE OF AUDIT FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(I)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(I)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(I)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(I)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(I)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(I)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(I)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(I)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(I)(vii)</i>	Major Programs (list):	Special Education Cluster, CFDA #84.027, #84.391, & #84.173 State Fiscal Stabilization Fund-Education State Grants- ARRA CFDA #84.394
<i>(d)(I)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(I)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

Material Weakness/Noncompliance

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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
FOR THE YEAR ENDED JUNE 30, 2011
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
(Continued)**

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

FINDING NUMBER 2011-001 (Continued)

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School 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 School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure the annual financial report is prepared in accordance with Generally Accepted Accounting Principles.

Client Response: The School District has elected not to prepare GAAP basis financial statements due to cost concerns.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC § 117.38 and OAC § 117-2-03 (B) – not filing annual financial report in accordance with generally accepted accounting principles	No	Not Corrected - repeated as Finding 2011-001.
2010-002	Student Activities	Yes	Corrected

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(740) 695-5775 Fax

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

December 9, 2011

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

To the Board of Education:

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

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

1. We noted the District did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the District to amend its definition by September 28, 2010.

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

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.



Dave Yost • 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
JANUARY 19, 2012**