

***FAIRPORT HARBOR EXEMPTED VILLAGE
SCHOOL DISTRICT
LAKE COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Education
Fairport Harbor Exempted Village School District
329 Vine Street
Fairport Harbor, Ohio 44077

We have reviewed the *Report of Independent Accountants* of the Fairport Harbor Exempted Village School District, Lake County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2010 through June 30, 2012. 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 Fairport Harbor Exempted Village 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

February 21, 2013

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FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Audit Report
For the Years Ended June 30, 2012 and 2011

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REPORT OF INDEPENDENT ACCOUNTANTS

Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

To the Board of Education:

We have audited the accompanying financial statements of the Fairport Harbor Exempted Village Schools, Lake County, Ohio (the District), as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, because of the departure from generally accepted accounting principles described in the preceding paragraph, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Fairport Harbor Exempted Village School District as of and for the years ended June 30, 2012 and 2011, in accordance with accounting principles generally accepted in the United States of America.

As described in Note 1, the District implemented Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

The District also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of Fairport Harbor Exempted Village School District, Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris Associates

Charles E. Harris & Associates, Inc.

December 28, 2012

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - All Governmental Fund Types
For the year ended June 30, 2012*

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts				
Taxes	\$ 2,639,270	-	\$ 39,099	\$ 2,678,369
Tuition	702,322	-	-	702,322
Earnings on Investments	250	-	-	250
Extracurricular Activities	1,722	\$ 26,569	-	28,291
Classroom Materials & Fees	12,320	-	-	12,320
Miscellaneous	23,792	5,710	-	29,502
Intergovernmental	1,570,770	363,532	-	1,934,302
Total Cash Receipts	4,950,446	395,811	39,099	5,385,356
Cash Disbursements				
Instruction				
Regular	2,349,361	86,122	13,847	2,449,330
Special	565,720	210,467	-	776,187
Vocational	8,284	-	-	8,284
Other	235,591	-	-	235,591
Support Services				
Pupil	224,101	166,856	-	390,957
Instructional Staff	73,690	77,883	-	151,573
Board of Education	16,145	-	-	16,145
Administration	573,017	10,163	11,524	594,704
Fiscal Services	156,908	-	706	157,614
Business	11,375	-	-	11,375
Operation and Maintenance	547,452	-	15,307	562,759
Pupil Transportation	68,206	-	-	68,206
Central Services	10,284	-	29,668	39,952
Operation of Non-Instructional Services	19,415	-	-	19,415
Extracurricular Activities	181,324	41,662	-	222,986
Debt Service				
Principal	-	-	140,000	140,000
Interest	-	-	6,300	6,300
Total Cash Disbursements	5,040,873	593,153	217,352	5,851,378
Total Receipts Over/(Under) Disbursements	(90,427)	(197,342)	(178,253)	(466,022)
Other Financing Receipts (Disbursements):				
Transfers-In	-	11,000	26,000	37,000
Advances-In	245,800	375,700	-	621,500
Proceeds of Notes	-	-	120,000	120,000
Refund of Prior Year Expenditures	-	396	-	396
Transfers-Out	(37,000)	-	-	(37,000)
Advances-Out	(375,700)	(245,800)	-	(621,500)
Refund of Prior Year Receipts	(13,333)	-	-	(13,333)
Total Other Financing Receipts (Disbursements)	(180,233)	141,296	146,000	107,063
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(270,660)	(56,046)	(32,253)	(358,959)
Fund cash balances, July 1, 2011	483,322	67,644	94,872	645,838
Restricted	53,009	62,687	62,619	178,315
Assigned	120,934	-	-	120,934
Unassigned	38,719	(51,089)	-	(12,370)
Fund cash balances, June 30, 2012	\$ 212,662	\$ 11,598	\$ 62,619	\$ 286,879

The Notes to the Financial Statements are an integral part of this Statement.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - Proprietary and Similar Fiduciary Fund Types
For the year ended June 30, 2012*

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Internal Service	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Extracurricular Activities	-	-	\$ 40,759	\$ 40,759
Miscellaneous	-	\$ 395	-	395
Total Operating Cash Receipts	<u>-</u>	<u>395</u>	<u>40,759</u>	<u>41,154</u>
Operating Cash Disbursements				
Purchased Services		-	2,770	2,770
Supplies and Materials	-	-	224	224
Other	-	1,000	33,869	34,869
Total Operating Cash Disbursements	<u>-</u>	<u>1,000</u>	<u>36,863</u>	<u>37,863</u>
Net Receipts over Disbursements	-	(605)	3,896	3,291
Fund Cash Balances, July 1, 2011	<u>\$ 915</u>	<u>19,994</u>	<u>21,868</u>	<u>42,777</u>
Fund Cash Balances, June 30, 2012	<u>\$ 915</u>	<u>\$ 19,389</u>	<u>\$ 25,764</u>	<u>\$ 46,068</u>

The Notes to the Financial Statements are an integral part of this statement.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - All Governmental Fund Types
For the year ended June 30, 2011*

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts				
Taxes	\$ 2,453,169	-	\$ 72,828	\$ 2,525,997
Tuition	697,164	-	-	697,164
Earnings on Investments	1,412	-	-	1,412
Extracurricular Activities	1,579	\$ 18,517	-	20,096
Classroom Materials & Fees	12,476	-	-	12,476
Miscellaneous	50,139	3,965	-	54,104
Intergovernmental	1,782,467	135,328	9,589	1,927,384
Total Cash Receipts	<u>4,998,406</u>	<u>157,810</u>	<u>82,417</u>	<u>5,238,633</u>
Cash Disbursements				
Instruction				
Regular	2,264,021	125,126	43,488	2,432,635
Special	509,360	228,439	-	737,799
Vocational	8,113	-	-	8,113
Other	278,097	-	-	278,097
Support Services				
Pupil	181,517	20,122	-	201,639
Instructional Staff	33,862	5,224	-	39,086
Board of Education	12,546	-	-	12,546
Administration	569,823	9,377	-	579,200
Fiscal Services	175,862	-	873	176,735
Business	34,052	-	-	34,052
Operation and Maintenance	593,483	-	71,973	665,456
Pupil Transportation	2,929	-	-	2,929
Central Services	14,622	-	7,824	22,446
Operation of Non-Instructional Services	15,314	-	-	15,314
Extracurricular Activities	174,094	32,790	725	207,609
Debt Service				
Principal	-	-	150,000	150,000
Interest	-	-	6,713	6,713
Total Cash Disbursements	<u>4,867,695</u>	<u>421,078</u>	<u>281,596</u>	<u>5,570,369</u>
Total Receipts Over/(Under) Disbursements	<u>130,711</u>	<u>(263,268)</u>	<u>(199,179)</u>	<u>(331,736)</u>
Other Financing Receipts (Disbursements):				
Transfers-In	-	-	16,700	16,700
Advances-In	17,100	256,800	-	273,900
Proceeds of Notes	-	-	140,000	140,000
Refund of Prior Year Expenditures	8,445	179	-	8,624
Transfers-Out	(16,700)	-	-	(16,700)
Advances-Out	(256,800)	(13,400)	-	(270,200)
Refund of Prior Year Receipts	(5,462)	-	-	(5,462)
Total Other Financing Receipts (Disbursements)	<u>(253,417)</u>	<u>243,579</u>	<u>156,700</u>	<u>146,862</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	<u>(122,706)</u>	<u>(19,689)</u>	<u>(42,479)</u>	<u>(184,874)</u>
Fund cash balances, July 1, 2010	<u>606,028</u>	<u>87,333</u>	<u>137,351</u>	<u>830,712</u>
Restricted	28,321	67,892	94,872	191,085
Assigned	93,881	-	-	93,881
Unassigned	361,120	(248)	-	360,872
Fund cash balances, June 30, 2011	<u>\$ 483,322</u>	<u>\$ 67,644</u>	<u>\$ 94,872</u>	<u>\$ 645,838</u>

The Notes to the Financial Statements are an integral part of this Statement.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - Proprietary and Similar Fiduciary Fund Types
For the year ended June 30, 2011*

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Internal Service	Private Purpose Trust	Agency	
Operating Cash Receipts:				
Extracurricular Activities	-	-	\$ 29,949	\$ 29,949
Earnings on Investments	-	\$ 10	-	10
Miscellaneous	-	525	-	525
Total Operating Cash Receipts	<u>-</u>	<u>535</u>	<u>29,949</u>	<u>30,484</u>
Operating Cash Disbursements				
Supplies and Materials	-	-	929	929
Other	-	4,000	23,315	27,315
Total Operating Cash Disbursements	<u>-</u>	<u>4,000</u>	<u>24,244</u>	<u>28,244</u>
Excess of receipts over/(under) disbursements before interfund activity	-	(3,465)	5,705	2,240
Advances out	-	-	(3,700)	(3,700)
Net Receipts over Disbursements	-	(3,465)	2,005	(1,460)
Fund Cash Balances, July 1, 2010	\$ 915	23,459	19,863	44,237
Fund Cash Balances, June 30, 2011	<u>\$ 915</u>	<u>\$ 19,994</u>	<u>\$ 21,868</u>	<u>\$ 42,777</u>

The Notes to the Financial Statements are an integral part of this statement.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Fairport Harbor Exempted Village School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is located in Fairport Harbor, Ohio, Lake County.

The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms and provides educational services as mandated by State or federal agencies. The Board controls the District's two educational facilities consisting of one elementary school (K-5) and one high school (6-12).

B. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code 117-2-03 to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received and cash rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). By virtue of Ohio law, the District is required to maintain the encumbrance method of accounting and to make appropriations.

C. CASH

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

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING**

The District maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds:

1. **General Fund**

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

2. **Special Revenue**

Special Revenue funds used to account for the proceeds of special revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes.

Title VI-B Fund- This fund ensures that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs.

Title I Fund- This fund ensures that all children with math and reading difficulties are provided tutoring services designed to meet their unique needs

3. **Capital Projects**

Capital Projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Permanent Improvement Fund- This fund expends funds for continuous capital improvements within the District.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** – (continued)

5. **Internal Service Fund**

The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis.

Health Consortium Fund-This fund accounts for monies to pay claims for employees under the District's self-insurance plan (for fiscal year 2009). In fiscal year 2010, the District switched to coverage with traditional insurance provider.

Fiduciary Funds:

6. **Private Purpose Trust Funds**

These funds are used to account for trust agreements under which the principal and income benefit individuals, private organizations, or other governments. These trust funds do not support the school district's own programs.

Endowments- This fund accounts for scholarship programs for students.

7. **Agency Funds**

Agency Funds are used to account for assets held by the District, as an agent for individuals, private organizations or other governmental units and/or other funds.

Student Activities- This fund accounts for student activity programs which have student participation in the activity and have students involved in the management of the program.

E. **BUDGETARY PROCESS**

1. **Tax Budget**

A budget of estimated cash receipts and disbursements is submitted to the Lake County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

E. **BUDGETARY PROCESS** – (continued)

2. **Appropriations**

An appropriation measure is adopted by the District on or before the first day of July in each year for the period July 1 to June 30 of the following year. The appropriation measure is submitted to the County Auditor, who in turn, submits it to the County Budget Commission. The appropriation measure controls expenditures of the District. The District may, by resolution, transfer funds from one line item to another in the appropriation measure, reduce or increase any item, create new items, and make additional appropriations, subject to availability of funds and to the approval of the County Budget Commission. The District's legal level of control is set at the fund level. The budget figures in Note 3 represent the final appropriation amounts including all amendments and modifications.

3. **Estimated Resources**

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates.

4. **Encumbrances**

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

A summary of 2011 and 2012 budgetary activity appears in Note 3.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

F. **FUND BALANCE**

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

1. **Non-Spendable**

The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are 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.

2. **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.

3. **Committed**

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. 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.

4. **Assigned**

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board of Education or a District official delegated that authority by resolution, or by State Statute.

5. **Unassigned**

The unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification would be used only to report a deficit balance.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. FUND BALANCE – (continued)

The 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 by unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. PROPERTY, PLANT AND EQUIPMENT

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

H. ACCUMULATED LEAVE

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

I. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects the financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

2. CASH AND INVESTMENTS

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. During the fiscal year, all investments were limited to Federal agency bonds and notes, certificates of deposit, the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2012 and 2011.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

2. CASH AND INVESTMENTS – (continued)

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings were recorded to the General Fund. Interest income earned in fiscal year 2012 totaled \$250 and \$1,412 in fiscal year 2011.

The District maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	2012	2011
Demand Deposits	\$ (22,122)	\$ (35,694)
StarOhio	355,069	724,309
Total Deposits, Investments and Cash	\$ 332,947	\$ 688,615

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public depository pool.

The negative deposits are due to the District utilizing a controlled disbursement cash management system.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2012 is as follows:

2012 Budgeted vs. Actual Receipts			
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 5,331,050	\$ 5,196,246	\$ (134,804)
Special Revenue	717,832	782,907	65,075
Capital Projects	79,943	185,099	105,156
Private Purpose Trust	500	395	(105)
Internal Service	100	-	(100)

2012 Appropriation vs. Actual Budgetary Basis Disbursements			
	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 5,600,000	\$ 5,587,840	\$ 12,160
Special Revenue	750,000	870,155	(120,155)
Capital Projects	365,000	228,973	136,027
Private Purpose Trust	18,000	1,000	17,000
Internal Service	1,000	-	1,000

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

3. BUDGETARY ACTIVITY – (continued)

Budgetary activity for the year ending June 30, 2011 is as follows:

2011 Budgeted vs. Actual Receipts			
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 5,654,267	\$ 5,023,951	\$ (630,316)
Special Revenue	356,550	414,789	58,239
Capital Projects	240,036	239,117	(919)
Private Purpose Trust	2,000	535	(1,465)
Internal Service	100	-	(100)

2009 Appropriation vs. Actual Budgetary Basis Disbursements			
	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 6,100,000	\$ 5,240,538	\$ 859,462
Special Revenue	600,000	469,651	130,349
Capital Projects	400,000	281,596	118,404
Private Purpose Trust	18,000	4,000	14,000

4. PROPERTY TAXES

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Lake County Auditor at 35% of appraised market value. All property is required to be revalued every six years with a triennial update. The last update was completed in 2012.

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 usually due December 31, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) received during calendar years 2012 and 2011 represent the collection of 2012 and 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied April 1, 2011 on the values listed as of December 31, 2011; taxes levied in calendar year 2011 were on values listed as of December 31, 2010. Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

4. PROPERTY TAXES – (continued)

The Lake County Treasurer collects property taxes on behalf of the District. The Lake County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

The full tax rate at the fiscal years ended June 30, 2012 and 2011 was \$88.83 per \$1,000 of assessed valuation. The assessed values of real and public utility property on which the fiscal years 2012 and 2011 taxes were collected were as follows:

Lake County	2012	2011
Total Valuation	\$ <u><u>64,273,360</u></u>	\$ <u><u>64,381,840</u></u>

Amounts are only available in total from Lake County.

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description -The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy -Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$86,206, \$84,389 and \$80,784, respectively; 100 percent was contributed for all fiscal years.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

5. **DEFINED BENEFIT PENSION PLANS** – (continued)

B. State Teachers Retirement System

Plan Description -The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates were established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$318,583, \$317,748 and \$286,557, respectively; 100 percent for all fiscal years. Contributions to the DC and Combined Plans for fiscal year 2012 and 2011 were \$11,265 and \$11,916 made by the District and \$8,047 and \$8,511 made by plan members.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

6. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees as set forth in Chapter 3309.69 of the Ohio Revised Code. 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 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy- State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The 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 District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$38,849, \$38,780 and \$38,974, respectively; 100 percent has been contributed for all fiscal years.

The Retirement Board, acting with advice for the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was .75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,158, \$4,063 and \$4,328 respectively; 100 percent has been contributed for all fiscal years.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

6. POSTEMPLOYMENT BENEFITS – (continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$22,756, \$22,696 and \$23,064, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

7. LONG-TERM DEBT OBLIGATIONS

	Balance Outstanding 6/30/10	Additions	Reductions	Balance Outstanding 6/30/11
Governmental activities:				
HB 264 Project - 4.8%	\$ 150,000	\$ 140,000	\$ (150,000)	\$ 140,000
Total long-term obligations	<u>\$ 150,000</u>	<u>\$ 140,000</u>	<u>\$ (150,000)</u>	<u>\$ 140,000</u>

	Balance Outstanding 6/30/11	Additions	Reductions	Balance Outstanding 6/30/12
Governmental activities:				
HB 264 Project - 4.8%	\$ 140,000	\$ 120,000	\$ (140,000)	\$ 120,000
Total long-term obligations	<u>\$ 140,000</u>	<u>\$ 120,000</u>	<u>\$ (140,000)</u>	<u>\$ 120,000</u>

The HB 264 notes were issued for the purpose of paying costs of installations, modifications and remodeling of school buildings to conserve energy.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

8. SET ASIDES

The District is required by State statute to annually set aside monies for capital improvements in each year and textbooks/instructional materials in 2011. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and/or qualifying disbursements during the year that reduced the set-aside amounts below zero for 2011, these extra amounts may not be carried forward to 2012. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years. The textbook set-aside requirement was rescinded on July 1, 2011.

During the fiscal years ended June 30, 2012 and 2011, the reserve activity was as follows:

<u>2012</u>	<u>Textbook/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2011	\$ 63,975	\$ -	\$ 28,321
Rescind set-aside	(63,975)		
Current year set-aside requirement	-	89,878	-
Current year off-sets	-	(65,099)	-
Qualifying disbursements	-	(91)	-
Total	\$ -	\$ 24,688	\$ 28,321
Balance carried forward fiscal year 2013	\$ -	\$ 24,688	\$ 28,321

<u>2011</u>	<u>Textbook/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2010	\$ 82,820	\$ 5,590	\$ 28,321
Current year set-aside requirement	84,008	84,008	-
Current year off-sets	-	(99,117)	-
Qualifying disbursements	(102,853)	(27)	-
Total	\$ 63,975	\$ (9,546)	\$ 28,321
Balance carried forward fiscal year 2012	\$ -	\$ -	\$ 28,321

9. FUND TRANSFERS

During the fiscal year 2012, the District transferred out from the General Fund \$26,000 to the Permanent Improvement Fund to pay the Energy Conservation note. Also, the District transferred \$11,000 from the General Fund to the Student Activities Fund to fund various obligations of that fund. During fiscal year 2011, the District transferred \$16,700 to the Permanent Improvement fund to pay the Energy Conservation Note. The applicable Ohio Revised Code compliance requirements were met.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011**

10. JOINTLY GOVERNED ORGANIZATIONS

A. Auburn Career Center

The Auburn Career Center is a joint vocational School District that is a jointly governed organization among eleven School Districts. Each participating School District appoints one member to the Auburn Career Center's Board of Education. The students of each participating School District may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

B. Lake/Geauga Computer Association

The Lake/Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member School Districts. Each of the School Districts support LGCA based upon a per pupil charge. The Executive Committee (governing board) consists of the superintendents and treasurers of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the governing board. LCGA's continued existence is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

C. Ohio Schools Council

The Ohio Schools' Council (the "Council") is a jointly governed organization among its eighty-three member School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member School Districts. Each School District supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven (7) superintendents of the participating School Districts whose term rotates every year. During Fiscal Years 2011 and 2012, the School District paid \$750 to the Council. The degree of control exercised by any School District is limited to its representation on the Board. Financial information can be obtained by contacting the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows School District to purchase electricity at reduced rates, if the School District will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, the Council compares the estimated usage to the actual usage and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating School Districts are not obligated in any manner for this debt. If a participating School District terminates its agreement of participation, that School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011

10. JOINTLY GOVERNED ORGANIZATIONS – (continued)

The School District also participates in the Council's prepaid natural gas program, which was implemented in fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts committed to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contribution to the operating fund, which are not encumbered for its share of program administrative costs.

D. Fairport Harbor Public Library

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer, Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

E. Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

F. Health Care Benefits Risk Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance – The School District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a shared risk pool, comprised of eleven members. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY, OHIO
Notes To The Financial Statements
For the Years Ended June 30, 2012 and 2011**

11. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Employee Benefits Liability
- Commercial Umbrella Liability

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

All employees of the District are covered by a blanket bond, while certain individuals in policy making roles are covered by a separate, higher limit bond coverage.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

12. CONTINGENT LIABILITIES

The District may be a defendant in various lawsuits. Although, the outcome of the lawsuits is not presently determinable, in the opinion of legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

13. COMPLIANCE

The District did not prepare its financial report in accordance with generally accepted accounting principles, contrary to Ohio Admin. Code 117-2-03.

Contrary to Ohio Revised Code Section 5705.39, the District had several funds that had appropriations exceeding estimated resources. Contrary to Ohio Revised Code Section 5705.41(b), the District had several funds that had expenditures plus encumbrances exceeding appropriations. Contrary to Section 5705.38(c), the District did not appropriate at the proper level in 2011. Contrary to Section 5705.10, the District had several funds that had negative fund balances during each year.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

To the Board of Education:

We have audited the financial statements of the Fairport Harbor Exempted Village School District, Lake County, Ohio (the District) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 28, 2012, wherein we noted the District followed accounting principles other than accounting principles generally accepted in the United States of America. We also noted the District implemented GASB Statement Number 54. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

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

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

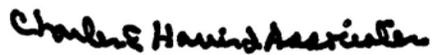
Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2012-001 through 2005.

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

We noted certain matters that we have reported to management of the District in a separate letter dated December 28, 2012.

We intend this report solely for the information and use of management, the Board of Education, and others within the District. We intend it for no one other than these specified parties.



Charles E. Harris and Associates, Inc.

December 28, 2012

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2012 and 2011**

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

FINDING NUMBER 2012-001 – Noncompliance Citation

Ohio Administrative Code 117-2-03 (B) requires the District to prepare its financial report in accordance with generally accepted accounting principles (GAAP). However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity-wide statements, and assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its financial statements in accordance with generally accepted accounting principles to comply with the Ohio Administrative Code requirements.

Management’s Response: The District omits generally accepted accounting principles reporting due to the cost of compliance. Management believes its limited resources should be directed to educating students rather than satisfying technical accounting standards.

FINDING NUMBER 2012-002 Non-compliance Citation

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than schools: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.”

Ohio Admin. Code 117-6-02 prescribes the following for school districts’ legal level of control: At a minimum, appropriation measures shall be classified to set forth separately the amounts appropriated by fund. The appropriation measure as passed by the school board shall be the legal level of control. This is the level at which compliance with statutory budgetary requirements will be determined.

Contrary to requirements, the District passed appropriations in 2011 at the fund type level. We recommend the District pass appropriations at least at the minimum legal level of control. We noted the District did pass appropriations at the proper level in 2012.

Management’s Response: New management has corrected the issue and will pass appropriations at the proper level going forward.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS – (continued)
June 30, 2012 and 2011**

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

FINDING NUMBER 2012-003 Non-compliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated as provided in such chapter.

At June 30, 2012, the following funds' expenditures plus encumbrances exceeded total appropriations:

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Public School Support	\$ 4,260	\$ 4,485	\$ (225)
Other Grants	3,200	7,309	(4,109)
Race To The Top	119,874	260,164	(140,290)
Title II-D	20	30	(10)
Title II	199,887	219,126	(19,239)
IDEA Preschool Handicapped	3,000	3,306	(306)

Management Response: New management will monitor all budgetary information and modify all information as needed.

FINDING NUMBER 2012-004 Non-compliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the District obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

At the year ended June 30, 2012, the following funds' appropriations exceeded total estimated resources:

Special Revenue Funds:	
Public School Support Fund	(\$800)
Student Activities Fund	(\$7,524)
Schoolnet Prof Development Fund	(\$42)
Education Jobs Fund	(\$103,204)
Race To The Top Fund	(\$58,751)
IDEA Part B Fund	(\$123,553)
Title II-D Fund	(\$20)
Title II Fund	(\$33,744)
IDEA Preschool Handicapped Fund	(\$1,181)
Capital Projects Fund:	
Permanent Improvement Fund	(\$229,784)

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS – (continued)
June 30, 2012 and 2011**

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

FINDING NUMBER 2012-004 Non-compliance Citation – (continued)

We recommend that the District better monitor appropriations and estimated resources to avoid appropriating more than the resources available.

Management Response: New management will monitor all budgetary information and modify all information as needed.

FINDING NUMBER 2012-005 Noncompliance Citation

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the District from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. We noted the following negative cash balances as of June 30:

2011 Funds

Special Revenue Funds:

Ohio Reads	\$	238
Title II-D		10

2012 Funds

Special Revenue Funds:

Ohio Reads	\$	238
Education Jobs		20,217
Race to the Top		27,531
Title VI-B		2,255
Title II-D		40
Title II-A		808

We recommend the District monitor all cash balances regularly. If grants are expected to be received at a later date, the District should advance money to cover the expenses until the grants are received.

Management response: The negative balances are related to grants not being received timely. New management will advance money for grants in the future to avoid negative cash balances.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY
FOR THE YEARS ENDED JUNE 20, 2012 AND 2011**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken or Finding No Longer Valid; Explain
2010-001	OAC 117-2-03(B) failure to prepare financial report in accordance with GAAP	No	Repeated as 2012-001



Dave Yost • Auditor of State

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

LAKE 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
MARCH 5, 2013**