



Dave Yost • Auditor of State



FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Fayette Local School District  
Fulton County  
400 East Gamble Road  
Fayette, Ohio 43521-9462

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 Fayette Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 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 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 Fayette Local School District, Fulton County, Ohio, as of June 30, 2012, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General and Classroom Facilities Maintenance funds for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

January 10, 2013

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 30, 2012  
UNAUDITED**

The discussion and analysis of the Fayette Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Highlights**

Highlights for fiscal year 2012 are as follows:

In total, net assets increased \$46,915 from prior fiscal year. There was a 7 percent decrease in revenues and a 14 percent decrease in expenses.

General revenues accounted for 84 percent of total revenues and reflect the District's significant dependence on property taxes and unrestricted state entitlements.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide 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 District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is the most significant fund. The General Fund and the Classroom Facilities Maintenance Fund are the District's major funds.

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities, both reported on the cash basis, reflect how the District performed financially during fiscal year 2012. These statements are reported on a cash basis of accounting which reflects receipts and disbursements when cash is received or disbursed.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District, as a whole, has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the cash basis statement of net assets and the statement of activities, the District discloses a single type of activity, its governmental activities which includes all of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 30, 2012  
UNAUDITED  
(CONTINUED)**

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major funds are the General Fund and the Classroom Facilities Maintenance Fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal yearend for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps 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 District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the cash basis of accounting.

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2012 compared to fiscal year 2011.

<b>Table 1</b>		
<b>Net Assets – Cash Basis</b>		
<b>Governmental Activities</b>		
	<b>2012</b>	<b>2011</b>
<b><u>Assets:</u></b>		
Cash and Cash Equivalents	\$2,464,747	\$2,417,832
<b><u>Net Assets:</u></b>		
Restricted	\$987,866	\$1,058,049
Unrestricted	1,476,881	1,359,783
Total	\$2,464,747	\$2,417,832

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 30, 2012  
UNAUDITED  
(CONTINUED)**

Table 2 reflects the changes in net assets for fiscal year 2012 compared to fiscal year 2011.

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

	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services and Sales	\$349,926	\$283,838
Operating Grants and Contributions	499,418	875,150
Capital Grants and Contributions		390,020
Total Program Revenues	849,344	1,549,008
General Revenues:		
Property Taxes	1,295,897	1,271,707
Income Taxes	406,485	357,091
Grants and Entitlements	2,782,910	2,620,782
Gifts and Donations	17,306	810
Investment Earnings	17,645	24,398
Miscellaneous	23,087	13,697
Proceeds from Sale of Capital Assets		1,500
Refund of Prior Year Expenditures	40,981	462
Total General Revenues	4,584,311	4,290,447
Total Revenues	5,433,655	5,839,455
<b>Expenses:</b>		
Instruction	2,907,010	2,997,962
Support Services:		
Pupils	283,678	339,033
Instructional Staff	192,651	193,358
Board of Education	12,005	10,875
Administration	396,756	408,982
Fiscal	168,917	174,744
Operation and Maintenance of Plant	424,677	411,731
Pupil Transportation	233,295	281,200
Central	18,244	50,953
Non-Instructional	213,344	196,348
Extracurricular Activities	191,994	183,847
Capital Outlay	13,813	698,192
Principal	125,000	120,000
Interest and Fiscal Charges	205,356	209,950
Total Expenses	5,386,740	6,277,175
Increase/(Decrease) in Net Assets	\$46,915	(\$437,720)

Program receipts account for 16 percent of total receipts and are represented by restricted intergovernmental receipts, extracurricular activities, and food service sales.

The major program disbursements for governmental activities are for instruction, which accounts for 54 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 13 percent of governmental disbursements. Maintenance of the District's facilities also represents significant disbursements of 8 percent. The remaining 25 percent of the District's

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 30, 2012  
UNAUDITED  
(CONTINUED)**

disbursements are related to the primary functions of delivering education and providing facilities. These costs are funded almost entirely from property taxes and grants and entitlements.

**Governmental Activities**

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities, Cash basis, reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Instruction	\$2,907,010	\$2,435,421	\$2,997,962	\$2,322,984
Support Services:				
Pupils	283,678	263,734	339,033	333,915
Instructional Staff	192,651	156,388	193,358	137,515
Board of Education	12,005	12,005	10,875	10,875
Administration	396,756	384,048	408,982	403,832
Fiscal	168,917	168,917	174,744	174,744
Operation and Maintenance of Plant	424,677	423,868	411,731	301,615
Pupil Transportation	233,295	227,965	281,200	210,914
Central	18,244	13,497	50,953	41,520
Non-Instructional	213,344	18,974	196,348	13,216
Extracurricular Activities	191,994	88,410	183,847	138,915
Capital Outlay	13,813	13,813	698,192	308,172
Principal	125,000	125,000	120,000	120,000
Interest and Fiscal Charges	205,356	205,356	209,950	209,950
Total Expenses	<u>\$5,386,740</u>	<u>\$4,537,396</u>	<u>\$6,277,175</u>	<u>\$4,728,167</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 83 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 84 percent. The remaining 16 percent are derived from tuition and fees, specific grants, and donations.

**The District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting.

For the General Fund, fund balance increased \$114,008 or 8 percent from the prior fiscal year. The increase is primarily a result of higher State Foundation revenues.

The Classroom Facilities Maintenance Fund's balance increased \$349,665 or 346 percent from the prior fiscal year. The increase is a result of a transfer from the building project fund as required per the OSFC to maintain the new facility.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 30, 2012  
UNAUDITED  
(CONTINUED)**

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2012, the District amended its General Fund budget as needed.

Original to final budget and final budget to actual revenues and other financing sources only varied by 3 and 2 percent, respectively.

Original to final budgeted disbursements varied by 3 percent. Actual were 8 percent less than the final budgeted amounts. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**Debt Administration**

The District's outstanding debt at fiscal yearend consisted of general obligation bonds, in the amount of \$4,860,072.

For further information regarding the District's long-term obligations, see the notes to the basic financial statements.

**Current Issues**

The District completed construction on a 250KW Wind Turbine located south of the school building in December 2010. The project was planned to be fully operational in January 2011. However, there has been several months that the wind turbine was not generating alternative power due to mechanical issues. The District is yet to see the 30-40% predicted annual savings.

Enrollment numbers were slightly up this year for the Kindergarten classes, and the District was able to operate two classrooms.

This year the District housed the Headstart program within our facility. The program was supervised by the Northwest Ohio ESC. This eliminated the transportation of preschool students to Pulaski for education.

Long term planning continues on the development of the outside athletic fields. This will include a track, baseball and softball fields, and a concession and restroom facility.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or request for additional information should be directed to Kelly Bentley, Treasurer, Fayette Local School District, 400 East Gamble Road, Fayette, OH 43521-9462.

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FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

Statement of Net Assets - Cash Basis  
June 30, 2012

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ <u>2,464,747</u>
<b>Net Assets:</b>	
Restricted for Debt Service	161,993
Restricted for Capital Outlay	106,880
Restricted for Other Purposes	718,993
Unrestricted	<u>1,476,881</u>
<i>Total Net Assets</i>	\$ <u>2,464,747</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2012**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>			
Instruction:			
Regular	\$ 2,141,744	\$ 162,377	\$ 95,227
Special	660,113		213,985
Vocational	102,122		
Other	3,031		
Support Services:			
Pupils	283,678		19,944
Instructional Staff	192,651		36,263
Board of Education	12,005		(12,005)
Administration	396,756		12,708
Fiscal	168,917		(168,917)
Operation and Maintenance of Plant	424,677		809
Pupil Transportation	233,295		5,330
Central	18,244		4,747
Operation of Non-Instructional Services	213,344	83,965	110,405
Extracurricular Activities	191,994	103,584	
Capital Outlay	13,813		
Debt Service:			
Principal	125,000		
Interest and Fiscal Charges	205,356		
<b>Totals</b>	<b>\$ 5,386,740</b>	<b>\$ 349,926</b>	<b>\$ 499,418</b>
<b>General Revenues:</b>			
Taxes:			
Property Taxes, Levied for General Purposes			1,014,134
Property Taxes, Levied for Debt Service			265,813
Property Taxes, Levied for Capital Maintenance			15,950
Income Taxes			406,485
Grants and Entitlements not Restricted to Specific Programs			2,782,910
Gifts and Donations			17,306
Investment Earnings			17,645
Miscellaneous			23,087
Refund of Prior Year Expenditures			40,981
<i>Total General Revenues</i>			4,584,311
<i>Change in Net Assets</i>			46,915
Net Assets Beginning of Year			2,417,832
<i>Net Assets at End of Year</i>			<b>\$ 2,464,747</b>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Cash Basis Assets and Fund Balances  
Governmental Funds  
June 30, 2012**

	<u>General Fund</u>	<u>Classroom Facilities Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ <u>1,496,532</u>	\$ <u>450,800</u>	\$ <u>517,415</u>	\$ <u>2,464,747</u>
 <b>Fund Balances:</b>				
Restricted		\$ 450,800	\$ 317,636	\$ 768,436
Committed			199,779	199,779
Assigned	\$ 547,953			547,953
Unassigned	948,579			948,579
<i>Total Fund Balances</i>	\$ <u>1,496,532</u>	\$ <u>450,800</u>	\$ <u>517,415</u>	\$ <u>2,464,747</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Cash Basis Receipts, Disbursements and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2012**

	<b>General Fund</b>	<b>Classroom Facilities Maintenance Fund</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 1,014,134	\$ 15,950	\$ 265,813	\$ 1,295,897
Income Tax	406,485			406,485
Intergovernmental	2,731,712	18,916	531,700	3,282,328
Interest	14,390		3,255	17,645
Tuition and Fees	162,377			162,377
Extracurricular Activities	33,437		70,147	103,584
Gifts and Donations	1,918		15,388	17,306
Customer Sales and Services			83,965	83,965
Miscellaneous	11,504		11,583	23,087
<i>Total Receipts</i>	<u>4,375,957</u>	<u>34,866</u>	<u>981,851</u>	<u>5,392,674</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	2,050,068		91,676	2,141,744
Special	479,864		180,249	660,113
Vocational	102,122			102,122
Other	3,031			3,031
Support Services:				
Pupils	263,734		19,944	283,678
Instructional Staff	156,217		36,434	192,651
Board of Education	12,005			12,005
Administration	382,986		13,770	396,756
Fiscal	161,051	447	7,419	168,917
Operation and Maintenance of Plant	314,777	107,885	2,015	424,677
Pupil Transportation	227,965		5,330	233,295
Central	12,924		5,320	18,244
Operation of Non-Instructional Services	3,500		209,844	213,344
Extracurricular Activities	132,686		59,308	191,994
Capital Outlay			13,813	13,813
Debt Service:				
Principal			125,000	125,000
Interest			205,356	205,356
<i>Total Disbursements</i>	<u>4,302,930</u>	<u>108,332</u>	<u>975,478</u>	<u>5,386,740</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>73,027</u>	<u>(73,466)</u>	<u>6,373</u>	<u>5,934</u>
<b>Other Financing Sources and (Uses):</b>				
Transfers In		423,131		423,131
Refund of Prior Year Expenditures	40,981			40,981
Transfers Out			(423,131)	(423,131)
<i>Other Financing Sources and (Uses)</i>	<u>40,981</u>	<u>423,131</u>	<u>(423,131)</u>	<u>40,981</u>
<i>Net Change in Fund Balances</i>	<u>114,008</u>	<u>349,665</u>	<u>(416,758)</u>	<u>46,915</u>
Fund Balance at Beginning of Year	1,382,524	101,135	934,173	2,417,832
<i>Fund Balance at End of Year</i>	<u>\$ 1,496,532</u>	<u>\$ 450,800</u>	<u>\$ 517,415</u>	<u>\$ 2,464,747</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Receipts, Disbursements and Changes  
in Fund Balances - (Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 1,003,384	\$ 997,934	\$ 1,014,134	\$ 16,200
Income Tax	332,095	406,485	406,485	
Intergovernmental	2,668,995	2,724,165	2,731,712	7,547
Interest	15,000	15,000	14,390	(610)
Tuition and Fees	118,025	118,025	162,377	44,352
Rent	500	500		(500)
Gifts and Dontations			633	633
Miscellaneous	25,000	25,000	11,504	(13,496)
<i>Total Receipts</i>	<u>4,162,999</u>	<u>4,287,109</u>	<u>4,341,235</u>	<u>54,126</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	2,014,016	2,062,796	2,023,341	39,455
Special	547,407	539,252	479,864	59,388
Vocational	103,985	113,088	102,713	10,375
Other	2,250	3,750	3,031	719
Support Services:				
Pupils	295,664	296,552	263,734	32,818
Instructional Staff	143,939	186,379	152,549	33,830
Board of Education	36,208	36,208	12,075	24,133
Administration	448,735	476,141	385,537	90,604
Fiscal	183,740	183,840	163,381	20,459
Operation and Maintenance of Plant	366,759	364,634	323,521	41,113
Pupil Transportation	230,355	245,300	229,792	15,508
Central	30,500	30,540	13,224	17,316
Operation of Non-Instructional Services	3,500	3,500	3,500	
Extracurricular Activities	120,445	136,881	132,686	4,195
Capital Outlay	7,500	7,500		7,500
<i>Total Disbursements</i>	<u>4,535,003</u>	<u>4,686,361</u>	<u>4,288,948</u>	<u>397,413</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(372,004)</u>	<u>(399,252)</u>	<u>52,287</u>	<u>451,539</u>
<b>Other Financing Sources:</b>				
Advances In	7,500	7,500		(7,500)
Proceeds from Sale of Capital Assets	1,000	1,000		(1,000)
Refund of Prior Year Expenditures	1,676	12,265	40,981	28,716
<i>Total Other Financing Sources</i>	<u>10,176</u>	<u>20,765</u>	<u>40,981</u>	<u>20,216</u>
<i>Net Change in Fund Balances</i>	(361,828)	(378,487)	93,268	471,755
<i>Fund Balance at Beginning of Year</i>	1,344,905	1,344,905	1,344,905	
Prior Year Encumbrances Appropriated	15,221	15,221	15,221	
<i>Fund Balance at End of Year</i>	<u>\$ 998,298</u>	<u>\$ 981,639</u>	<u>\$ 1,453,394</u>	<u>\$ 471,755</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**Statement of Receipts, Disbursements and Changes  
in Fund Balances - (Budgetary Basis)  
Classroom Facilities Maintenance Fund  
For the Fiscal Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 16,145	\$ 15,811	\$ 15,950	\$ 139
Intergovernmental	19,631	19,690	18,916	(774)
<i>Total Receipts</i>	<u>35,776</u>	<u>35,501</u>	<u>34,866</u>	<u>(635)</u>
<b>Disbursements:</b>				
Current:				
Support Services:				
Fiscal	625	625	447	178
Operation and Maintenance of Plant	115,958	142,958	127,490	15,468
<i>Total Disbursements</i>	<u>116,583</u>	<u>143,583</u>	<u>127,937</u>	<u>15,646</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(80,807)</u>	<u>(108,082)</u>	<u>(93,071)</u>	<u>15,011</u>
<b>Other Financing Sources:</b>				
Transfers In		423,131	423,131	
<i>Net Change in Fund Balances</i>	<u>(80,807)</u>	<u>315,049</u>	<u>330,060</u>	<u>15,011</u>
Fund Balance at Beginning of Year	77,155	77,155	77,155	
Prior Year Encumbrances Appropriated	23,958	23,958	23,958	
<i>Fund Balance at End of Year</i>	<u>\$ 20,306</u>	<u>\$ 416,162</u>	<u>\$ 431,173</u>	<u>\$ 15,011</u>

See Accompanying Notes to the Basic Financial Statements

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

Statement of Fiduciary Net Assets - Cash Basis  
Fiduciary Funds  
June 30, 2012

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>15,184</u>	\$ <u>29,817</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies		\$ <u>29,817</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	\$ <u>15,184</u>	

See Accompanying Notes to the Basic Financial Statements

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

Statement of Changes in Fiduciary Net Assets - Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2012

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	\$ 84
Gifts and Contributions	<u>100</u>
<i>Total Additions</i>	<u>184</u>
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	98
<i>Change in Net Assets</i>	86
Net Assets Beginning of Year	<u>15,098</u>
<i>Net Assets End of Year</i>	<u>\$ 15,184</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The District is the 600<sup>th</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 14 classified employees, 34 certified teaching personnel, and 8 administrative employees who provide services to 472 students and other community members.

**The Reporting Entity**

**A. Primary Government**

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

**B. Component Units**

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District, and are significant in amount to the District. The District does not have any component units.

**C. Jointly Governed Organizations and Purchasing Pools**

The District is associated with four jointly governed organizations, three insurance pools, and is associated with a related organization. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the Northern Buckeye Health Plan Employee Insurance Benefits Program, the Northern Buckeye Health Plan Workers' Compensation Group Rating Plan, and the Normal Memorial Library. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

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

**1. Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the 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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support 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 a basis or draws from the District's general receipts.

**2. Fund Financial Statements**

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of that individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting**

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

**1. Governmental Funds:**

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other non-exchange transactions as governmental funds. The General Fund and the Classroom Facilities Maintenance Fund are the District's major governmental funds:

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

Classroom Facilities Maintenance Fund – The Classroom Facilities Maintenance Fund is used to account for tax revenues and expenses for the maintenance of the instructional building and grounds.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency funds account for various student managed activities.

**C. Basis of Accounting**

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

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

The budgetary process is prescribed by provision of the Ohio Revised Code and entails the preparation of budgetary documents within established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are an alternative tax budget (consists of a five-year forecast and debt schedules), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations below these levels are made by the District's Treasurer.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

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. Expenditures plus encumbrances may not legally exceed appropriations.

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

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Investments**

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

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 negative receipts (contra revenue), respectively.

During fiscal year 2012, investments included nonnegotiable certificates of deposit, federal agency securities and money market mutual funds. Investments are reported at cost, except for the money market mutual funds. The District's money market mutual funds are recorded at the amounts reported by Reliance Financial Services at June 30, 2012.

The Board of Education allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2012 was \$14,390, which includes \$2,591 assigned from other District funds.

**F. Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Capital Assets**

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

**H. Compensated Absences**

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

**I. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay expenditure is reported at inception. Lease payments are reported when paid.

**K. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There were no amounts restricted by enabling legislation.

**M. 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 use of the resources in governmental funds. The classifications are as follows:

**Nonspendable** - The nonspendable classification 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" includes items that are not expected to be converted to cash.

**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 classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The 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. 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.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Assigned - Amounts in the assigned 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 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 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 District first applies restricted resources when an expenditure is 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 can be used.

**3. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budgetary Basis presented for the General Fund and Classroom Facilities Maintenance Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) and certain funds included in the General fund as part of the GASB 54 requirements are not included in the budgetary statement.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budget basis statement for the General fund:

<b>Net Change in Fund Balance</b>	<b>General Fund</b>	<b>Classroom Facilities Maintenance Fund</b>
Cash Basis (as reported)	\$114,008	\$349,665
Outstanding Encumbrances	(21,386)	(19,605)
Perspective Difference:		
Activity of Funds Reclassified for Cash Reporting Purposes	646	
Budgetary Basis	\$93,268	\$330,060

**4. DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District Treasury. Active monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Inactive deposits are public deposits that the Board has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if trading requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the District had \$1,170 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$756,969 of the District's bank balance of \$1,644,085 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

	<u>Cost</u>	<u>Maturity</u>
Federal Farm Credit Bank Bonds	\$28,137	06/01/15
Federal Home Loan Bank Bonds	15,570	05/13/13
Federal Home Loan Bank Bonds	151,845	05/06/15
Federal Home Loan Bank Bonds	79,165	09/11/15
Federal Home Loan Bank Bonds	22,876	12/12/14
Federal Home Loan Bank Bonds	26,234	01/06/16
Federal Home Loan Bank Bonds	33,909	06/12/15
Federal National Mortgage Association Notes	49,852	10/29/15
Federal National Mortgage Association Notes	51,722	07/23/15
Federal National Mortgage Association Notes	25,070	08/24/16
Federal National Mortgage Association Notes	50,000	09/28/16
Federal Home Loan Mortgage Corporation Notes	21,601	08/15/12
Federal Home Loan Mortgage Corporation Notes	101,340	08/27/14
Federal Home Loan Mortgage Corporation Notes	125,625	12/23/13
Mutual Funds	110,465	Average 32 Days
	<u>\$893,411</u>	

Interest rate risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

Credit Risk - The Federal Farm Credit Bank Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the money market mutual fund carry a rating of Aaa by Moody's. The District has no policy regarding credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated, at the time of purchase, in the highest category by at least one nationally recognized standard rating service.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Farm Credit Bonds, and Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptance to 25 percent of the interim monies available for investment at any one time. The following table indicates the percentage of each investment to the District's total portfolio.

	<b>Cost</b>	<b>Percentage of Portfolio</b>
Federal Farm Credit Bank Bonds	\$28,137	3.15%
Federal Home Loan Bank Bonds	329,599	36.89%
Federal National Mortgage Association Notes	176,644	19.77%
Federal Home Loan Mortgage Corporation Notes	248,566	27.82%

**5. INCOME TAX**

In 1991, the voters of the Fayette Local School District passed a 1.00 percent continuing school income tax on wages earned by residents of the District. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund.

**6. PROPERTY TAXES**

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years through 2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**6. PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes for 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2012 were levied after April 1, 2011, on the assessed values as of December 31, 2010, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2012 taxes. Tangible personal property taxes for 2012 were levied after April 1, 2011, on the value as of December 31, 2010. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fulton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2011 Second- Half Collections</b>		<b>2012 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$33,697,340	84.60%	\$39,810,760	86.95%
Industrial/Commercial	4,150,330	10.40%	3,862,490	8.44%
Public Utility	1,989,490	5.00%	2,112,600	4.61%
Total Assessed Value	<u>\$39,837,160</u>	<u>100.00%</u>	<u>\$45,785,850</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$55.30		\$55.30	

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**7. CAPITAL ASSETS**

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

	<u>Balance at 6/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/12</u>
Governmental Activities				
Land	\$321,608			\$321,608
Construction in Progress	873,835			873,835
Land Improvements	33,528			33,528
Buildings and Building Improvements	16,708,423	\$83,020		16,791,443
Furniture, Fixtures, and Equipment	735,910	5,182	\$2,603	738,489
Vehicles	502,737	1,400		504,137
Total Capital Assets	<u>\$19,176,041</u>	<u>\$89,602</u>	<u>\$2,603</u>	<u>\$19,263,040</u>

**8. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with the Ohio School Plan for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

The District joined together with other school districts in Ohio to participate in the Ohio School Plan (the Plan), a public entity insurance purchasing pool (Note 16). Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on types and limits of coverage and deductibles that it selected by the participant.

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

**B. Employee Insurance Benefits Program**

Effective January 1, 2012, the Employee Insurance Benefits Consortium was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI) to form the Northern Buckeye Health Plan (NBHP), Northwest Division of OHI. Northern Buckeye Education Council no longer acts as fiscal agent for the insurance consortium. The District pays monthly premiums to NBHP for the benefits offered to its employees, which includes health, dental, and life insurance. NBHP is responsible for the management and operations of the program. The agreement with NBHP provides for additional assessment to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from NBHP, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 16). The Plan is intended to reduce premiums for the participants. 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 workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**8. RISK MANAGEMENT (Continued)**

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**9. DEFINED PENSION BENEFIT PLANS**

**A. State Teachers Retirement System**

Plan Description – The District participates to 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 East Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**9. DEFINED PENSION BENEFIT PLANS (Continued)**

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contribution and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the members account balance.

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

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

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

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

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

Funding Policy - For the fiscal year ended June 30, 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 are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$289,589, \$262,824 and \$282,744, respectively; 90 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**9. DEFINED PENSION BENEFIT PLANS (Continued)**

**B. School Employee Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by visiting the SERS website at [www.ohsers.org](http://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 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$88,283, \$72,081, and \$65,809, respectively; 83 percent has been contributed to fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2012, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages.

**10. POSTEMPLOYMENT BENEFITS**

**A. State Teachers Retirement System**

Plan Description – The District contributes to the cost sharing multiple employer defined benefit Health 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](http://www.strsoh.org) 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 Health Care Plan. All benefit recipients pay a monthly premium.

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

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 \$22,276, \$20,217, and \$21,750, respectively; 90 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. School Employee Retirement System**

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

Medicare Part B Plan – The Medicare Part 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 monthly premium for calendar year 2012 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 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 was \$5,214, \$4,639, and \$3,914, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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 HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 401h. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. 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. State law provides that no employer shall pay a health care surcharge greater than 2percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$11,234, \$16,139, and \$22,369, respectively; 28 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

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

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

**11. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty days for teachers and two hundred thirty days for all other employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of sixty days for teachers and fifty-seven days for all other employees.

**B. Health Care Benefits**

The District provides medical, dental, vision, and life insurance to most employees through the Northern Buckeye Health Plan Employee Insurance Benefits Program.

**C. Separation Benefits**

The District provides a separation benefit to eligible certified employees. A full-time employee eligible to retire under the provisions of the State Teachers Retirement System that has five years of service with the District will be paid \$500 for each year served in the first year eligible to retire, if notification of pending retirement is submitted in writing to the Board no later than April 1 for retirement effective at the end of the current school year or prior to the following school year.

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**12. LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the District during fiscal year 2012 were as follows:

	<u>Balance at 06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/12</u>	<u>Amounts Due In One Year</u>
Governmental Activities					
General Obligation Bonds					
FY2006 School Improvement					
Refunding Bonds					
Serial Bonds 4-4.5%	\$450,000			\$450,000	
FY2006 General Obligation Bonds					
Serial Bonds 3.75-4%	390,000		\$125,000	265,000	\$130,000
Term Bonds 4-4.55%	3,950,000			3,950,000	
Capital Appreciation Bonds 12.76%	89,999			89,999	
Accretion of Capital Appreciation Bonds	80,042	\$25,031		105,073	
Total General Obligation Bonds	<u>\$4,960,041</u>	<u>\$25,031</u>	<u>\$125,000</u>	<u>\$4,860,072</u>	<u>\$130,000</u>

FY 2006 School Improvement Refunding Bonds - On July 13, 2005, the District issued \$1,475,000 in general obligation bonds to partially refund bonds previously issued in fiscal year 1998 for renovating, repairing, and improving existing school buildings. The bonds were issued for an eighteen year period, with final maturity during fiscal year 2024. The bonds will be retired through the Bond Retirement debt service fund. During fiscal year 2008, the District defeased a portion of these bonds. In a prior fiscal year, the District received a significant settlement from a lawsuit. During fiscal year 2008, the District decided to use these monies to defease \$1,025,000 of the outstanding bonds. These monies were deposited in an irrevocable trust with an escrow agent and used to purchase United States Government Securities to provide for the future debt service payments on the bonds. As of June 30, 2012, \$925,000 of the refunded bonds was still outstanding.

FY 2006 General Obligation Bonds - On March 24, 2006, the District issued \$4,884,999, in general obligation bonds for constructing a school building. The bond issue included serial, term, and capital appreciation bonds, in the original amount of \$845,000, \$3,950,000, and \$89,999, respectively. The bonds were issued for a twenty-two year period, with final maturity during fiscal year 2028. The bonds will be retired through the Bond Retirement debt service fund.

The term bonds maturing on or after December 1, 2016, are subject to optional redemption, either in whole or in part, in such order as the School District shall determine, on any date on or after December 1, 2015, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2017, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2016, in the amount of \$140,000 (with the balance of \$145,000 to be paid at stated maturity on December 1, 2017), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2018, in the amount of \$150,000 (with the balance of \$155,000 to be paid at stated maturity on December 1, 2019), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**12. LONG-TERM OBLIGATIONS (Continued)**

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2020, in the amount of \$165,000 (with the balance of \$170,000 to be paid at stated maturity on December 1, 2021), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2022, in the amount of \$175,000 (with the balance of \$185,000 to be paid at stated maturity on December 1, 2023), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2024, in the amount of \$195,000 (with the balance of \$200,000 to be paid at stated maturity on December 1, 2025), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2034, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the year and the respective principal amounts as follows:

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>
2026	\$210,000
2027	220,000
2028	230,000
2029	240,000
2030	250,000
2031	260,000
2032	275,000
2033	285,000

The remaining principal, in the amount of \$300,000, will be paid at stated maturity on December 1, 2034.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2015 and 2016. The maturity amount of the bonds is \$280,000. For fiscal year 2012, \$25,031 was accreted for a total bond value of \$195,072 at fiscal year end.

The District's overall debt margin was \$3,405,727 with an unvoted debt margin of \$45,786 at June 30, 2012.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2012 are as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**12. LONG-TERM OBLIGATIONS (Continued)**

<u>Year Ending June 30,</u>	<u>Serial</u>	<u>Term</u>	<u>Capital Appreciation</u>	<u>Interest</u>	<u>Total</u>
2013	\$130,000			\$200,412	\$330,412
2014	135,000			195,112	330,112
2015			\$103,558	228,854	332,412
2016			91,514	240,898	332,412
2017		\$140,000		189,612	329,612
2018-2022	140,000	785,000		854,845	1,779,845
2023-2027	310,000	965,000		591,029	1,866,029
2028-2032		1,200,000		336,702	1,536,702
2033-2035		860,000		59,833	919,833
Total	<u>\$715,000</u>	<u>\$3,950,000</u>	<u>\$195,072</u>	<u>\$2,897,297</u>	<u>\$7,757,369</u>

**13. CAPITALIZED LEASES – LESSEE DISCLOSURE**

The District has entered into a capitalized lease for a vehicle.

The terms of the agreement provides an option to purchase the vehicle. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board (FASB), "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. These expenditures are reflected as program/function expenditures on the accompanying financial statements.

Capital assets acquired by the leases have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. Principal payments made in the 2012 fiscal year were \$18,923.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2013	<u>\$20,644</u>
Total Future Minimum Lease Payments	\$20,644
Less: Amount Representing Interest	(880)
Present Value of Future Minimum Lease Payments	<u>\$19,764</u>

**14. SET-ASIDE CALCULATIONS**

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. A similar provision related to the purchase of textbooks and other instructional materials was repealed effective July 1, 2011.

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

**FAYETTE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**14. SET-ASIDE CALCULATIONS (Continued)**

	<u>Capital Acquisition</u>
Current Year Set-aside Requirement	\$75,860
Current Year Offsets	(34,865)
Qualifying Disbursements	<u>(49,855)</u>
Total	<u><u>(\$8,860)</u></u>

**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. 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 educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2012, the District paid \$5,518 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be attained from Northern Buckeye Education Council, 209 Nolan Parkway, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Career Center possesses its own budgeting and taxing authority. The degree of control exercised by the District is limited to its representation on the Board. Financial information can be obtained from the Four County Career Center, at 22-900 State Route 34, Archbold, Ohio 43502.

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**15. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**16. GROUP PURCHASING POOLS**

**A. Ohio School Plan**

The District belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 300 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile, and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65 percent and is less than 80 percent does the Plan contribute to paid claims. (See the Plan's audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 :

	2011	2010	
Assets	\$4,280,876	\$3,859,753	
Liabilities	1,812,420	1,732,921	
Members' Equity	2,468,456	2,126,832	

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, [www.ohioschoolplan.org](http://www.ohioschoolplan.org).

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**16. GROUP PURCHASING POOLS (Continued)**

**B. Employee Insurance Benefits Program**

Effective January 1, 2012, the Employee Insurance Benefits Consortium was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI). The new name of the District's local insurance group consortium is Northern Buckeye Health Plan, Northwest Division of OHI. Northern Buckeye Education Council no longer acts as fiscal agent for the insurance consortium.

In fiscal year 2012, the District contributed a total of \$280,309 to Northern Buckeye Education Council for all employee insurance plans. Financial information for the period July 1, 2011 through December 31, 2011 can be obtained from Robin Pfund, Treasurer, at 209 Nolan Parkway, Archbold, OH 43502.

In fiscal year 2012, the District contributed a total of \$212,941 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period January 1, 2012 through June 30, 2012 can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Hwy., Suite 304E, Cincinnati, OH 45242.

**C. Northern Buckeye Health Plan Workers' Compensation Group Rating Plan**

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Health Plan as a group purchasing pool.

The WCGRP's business and affairs are conducted by a three-member board of directors consisting of two assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to the WCGRP to cover the costs of administering the program.

**17. RELATED ORGANIZATION**

The Normal Memorial 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 Fayette Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves 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 a tax, the rate, and purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Normal Memorial Library, 301 North Eagle Street, Fayette, Ohio 43251.

**18. CONTINGENCIES**

**A. Student Attendance Data**

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

**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**18. CONTINGENCIES (Continued)**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

**B. Litigation**

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

**19. INTERFUND TRANSFERS**

During the year ended June 30, 2012, the Building Fund, a Non-Major Governmental Fund transferred \$423,131 to the Classroom Facilities Maintenance Fund, a Major Governmental fund. The transfers were made to close out unspent project monies which will be used to subsidize maintenance expenditures.

**20. FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balance</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Restricted for:				
Regular Instruction			\$4,373	\$4,373
Special Instruction			2,455	2,455
Athletics			15,947	15,947
Food Service Operations			25,988	25,988
Facilities Maintenance		\$450,800		450,800
Debt Retirement			161,993	161,993
Building Construction			106,880	106,880
Total Restricted		450,800	317,636	768,436
Committed for:				
Athletic Facilities			199,779	199,779
Assigned for:				
Educational Activities	\$22,093			22,093
Unpaid Obligations (encumbrances)	21,386			21,386
Budget Stabilization	504,474			504,474
Total Assigned	547,953			547,953
Unassigned	948,579			948,579
Total Fund Balance	<u>\$1,496,532</u>	<u>\$450,800</u>	<u>\$517,415</u>	<u>\$2,464,747</u>



# Dave Yost • Auditor of State

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

Fayette Local School District  
Fulton County  
400 East Gamble Road  
Fayette, Ohio 43521-9462

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fayette Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2013, wherein we noted the District uses a comprehensive accounting basis 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' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

January 10, 2013

FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2012

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

FINDING NUMBER 2012-001

**Noncompliance Citation**

**Ohio Revised Code, § 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, § 117-2-03 (B)**, which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

For 2012, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the District's accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

**Officials' Response:**

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

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**FAYETTE LOCAL SCHOOL DISTRICT  
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-001	Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not corrected. Reissued as finding 2012-001 in this report.
2011-002	Material Weakness – Financial Reporting: Errors identified requiring the posting of audit adjustments.	Yes	

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# Dave Yost • Auditor of State

FAYETTE LOCAL SCHOOL DISTRICT

FULTON 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 24, 2013