



Dave Yost • Auditor of State

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position.....	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	21

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lancaster-Fairfield Community School
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Lancaster-Fairfield Community School, Fairfield County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, of Lancaster-Fairfield Community School, Fairfield County, Ohio, as of June 30, 2013, and the respective changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

October 28, 2013

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

The discussion and analysis of the Lancaster-Fairfield Community School's (LFCS) financial performance provides an overall review of the LFCS's financial activities for the fiscal year ended June 30, 2013. Readers should also review the basic financial statements and notes to enhance their understanding of the LFCS's financial performance.

Highlights

LFCS completed its ninth year of operation during fiscal year 2013 as a seventh through twelfth grade Community school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year but averaged 47 students.

Key highlights for fiscal year 2013 are as follows:

- Net position increased \$4,992.
- LFCS had an operating loss of \$36,787 in fiscal year 2013 compared to an operating loss of \$52,638 in fiscal year 2012.
- Total assets increased \$5,592 or 10 percent, due mainly to an increase in cash and cash equivalents in the amount of \$15,060.
- Total liabilities increased \$600 due to a payment owed to the financial oversight treasurer that was owed as of June 30, 2013.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how LFCS did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report LFCS's net position and changes in those assets. This change in net position is important because it tells the reader whether the financial position of LFCS has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

LFCS uses enterprise presentation for all of its activities.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

Table 1 provides a summary of LFCS's net position for 2013 compared to 2012.

Table 1
Net Assets

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<u>Assets:</u>			
Current and Other Assets	\$56,925	\$54,548	\$2,377
Capital Assets	3,832	617	3,215
Total Assets	<u>60,757</u>	<u>55,165</u>	<u>5,592</u>
<u>Liabilities:</u>			
Current Liabilities	<u>600</u>	<u>0</u>	<u>600</u>
<u>Net Assets:</u>			
Invested in Capital Assets	3,832	617	3,215
Unrestricted	<u>56,325</u>	<u>54,548</u>	<u>1,777</u>
Total Net Position	<u><u>\$60,157</u></u>	<u><u>\$55,165</u></u>	<u><u>\$4,992</u></u>

Total assets increased \$5,592. Intergovernmental receivables decreased in the amount of \$11,823 due primarily to decreases in amounts received from the IDEA-B grant in the amount of \$7,416 and the American Recovery and Reinvestment Act (ARRA) funding decreased by \$8,329 due to this program ending. Cash and cash equivalents increased in the amount of \$15,060. Liabilities increased \$600. The increase in current liabilities was due to a contract service payment owed to the financial oversight treasurer as of year-end. During fiscal year 2013, LFCS purchased computer equipment that has an estimated life of 6 years.

This space intentionally left blank

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

Table 2 reflects the changes in net position for fiscal year 2013, and comparisons to fiscal year 2012.

Table 2
Change in Net Assets

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$313,442	\$294,970	\$18,472
Other Operating Revenues	984	0	984
<u>Non-Operating Revenues:</u>			
State and Federal Grants	41,706	18,106	23,600
Interest Revenue	48	56	(8)
Other Non-Operating Revenue	25	0	25
Total Revenues	<u>356,205</u>	<u>313,132</u>	<u>43,073</u>
<u>Operating Expenses:</u>			
Purchased Services	349,538	345,621	3,917
Materials and Supplies	375	1,336	(961)
Depreciation	1,141	616	525
Other	159	35	124
Total Expenses	<u>351,213</u>	<u>347,608</u>	<u>3,605</u>
Total Increase (Decrease) in Net Position	<u>\$4,992</u>	<u>(\$34,476)</u>	<u>\$39,468</u>

Foundation revenues increased due to an increase in the average number of students attending LFCS in fiscal year 2013 as compared to fiscal year 2012. The increase in State and federal grants was primarily due to the LFCS receiving increased grant funding from the Ohio Department of Education for fiscal year 2013 in the areas of Title I and IDEA B which were offset by a decrease in Education Jobs. The primary purchased services expenses represent costs for staffing services with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center. Purchased service expenses increased in fiscal year 2013 due mainly to an increase in contract payments to the Fairfield County Juvenile Court. Based upon an agreement between LFCS and the Fairfield County Juvenile Court, the Fairfield County Juvenile Court receives 70 percent of the foundation revenues for services provided to operate the LFCS. During fiscal year 2013, LFCS returned funding to the Ohio Department of Education due to prior year overpayments in the amount of \$12,312. This amount was deducted from foundation revenues. The Ohio Department of Education funding review of fiscal year 2013 has not been completed at this time.

Budgeting

LFCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. The contract between LFCS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

LFCS had capital asset purchases during fiscal year 2013 in the amount of \$4,356. LFCS's computer inventory capitalized value totaled \$8,056 as of June 30, 2013. Accumulated depreciation for fiscal year 2013 was \$4,224. LFCS has no buildings because they utilize facilities provided by the Fairfield County Juvenile Court through a contract between the two parties.

Debt

LFCS has not incurred any debt.

Current Issues

LFCS continues to help students receive an education. LFCS serves the most at-risk students who are faced with problems such as delinquency and drug use. These issues make educating these students a challenge but one the LFCS is uniquely qualified to do.

Contacting the LFCS's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LFCS's finances and to show the LFCS's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Julie Taylor, Treasurer, Lancaster-Fairfield Community School, 345 Mulberry Street, Lancaster, Ohio 43130. Or E-Mail at J_TAYLOR@LANCASTER.K12.OH.US.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 19,351
Intergovernmental Receivable	36,140
Prepaid Items	1,434
Total Current Assets	<u>56,925</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>3,832</u>
Total Assets	<u>60,757</u>
 <u>Liabilities:</u>	
Accounts Payable	<u>600</u>
Total Liabilities	<u>600</u>
 <u>Net Position:</u>	
Net Investment in Capital Assets	3,832
Unrestricted	<u>56,325</u>
Total Net Position	<u>\$ 60,157</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Operating Revenues:</u>	
Foundation	\$ 313,442
Other Operating Revenues	984
Total Operating Revenues	<u>314,426</u>
 <u>Operating Expenses:</u>	
Purchased Services	349,538
Materials and Supplies	375
Depreciation	1,141
Other Operating Expenses	159
Total Operating Expenses	<u>351,213</u>
 Operating Loss	 <u>(36,787)</u>
 <u>Non-Operating Revenues:</u>	
State and Federal Grants	41,706
Interest Revenue	48
Other Non-Operating Revenue	25
Total Non-Operating Revenues	<u>41,779</u>
 Change in Net Position	 4,992
 Net Position at Beginning of Year	 <u>55,165</u>
Net Position at End of Year	<u>\$ 60,157</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$ 313,442
Cash Received from Other Operating Revenues	984
Cash Payments to Suppliers for Goods and Services	(353,077)
Other Non-Operating Revenues	25
Other Operating Expenses	(159)
Net Cash Used in Operating Activities	<u>(38,785)</u>

Cash Flows from Noncapital Financing Activities:

State and Federal Grants Received	58,153
-----------------------------------	--------

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(4,356)
-------------------------------	---------

Cash Flows from Investing Activities:

Interest on Investments	<u>48</u>
-------------------------	-----------

Net Increase in Cash and Cash Equivalents	15,060
---	--------

Cash and Cash Equivalents Beginning of Year	<u>4,291</u>
---	--------------

Cash and Cash Equivalents End of Year	<u><u>19,351</u></u>
---------------------------------------	----------------------

Reconciliation of Operating Loss to

Net Cash Used in Operating Activities:

Operating Loss	(36,787)
----------------	----------

Adjustments to Reconcile Operating Loss
to Net Cash Used in Operating Activities:

Other Non-Operating Revenues	25
Depreciation Expense	1,141

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(4,624)
Decrease in Prepaid Items	860
Increase in Accounts Payable	<u>600</u>

Net Cash Used in Operating Activities	<u><u>\$ (38,785)</u></u>
---------------------------------------	---------------------------

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 1 - Description of the School

The Lancaster-Fairfield Community School (LFCS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The LFCS's mission is to utilize a holistic approach to the education of at-risk students, offering students a variety of programs that address the physical, social, emotional, and educational needs of the students. The LFCS feels it is necessary to assist at-risk youth in developing positive behaviors and attitudes and become successful learners. Currently, the LFCS only services students within the Lancaster City School District, the Sponsor school district.

LFCS began operations on October 8, 2004 by entering into a five year contract with the Lancaster City School District (the Sponsor). Additional contracts were renewed in July 2008 for five years and in June 2013 for an additional two years. The Sponsor is responsible for evaluating the performance of LFCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the LFCS with the Treasurer of the Sponsor completing the role of Treasurer for the LFCS. LFCS contracted with a financial oversight treasurer to review the financial records of LFCS on a monthly basis.

The LFCS operates under the direction of a five-member Board of Directors from the public sector appointed by the Sponsor. LFCS is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LFCS. The Sponsor can suspend the LFCS's operations for any of the following reasons: 1) The LFCS's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LFCS's failure to meet generally accepted standards of fiscal management, 3) The LFCS's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFCS and the children it serves. During fiscal year 2013, LFCS paid purchased services to the Fairfield County Juvenile Court and the Fairfield County Educational Service Center for providing staffing services. Thus, LFCS did not have any employees. LFCS used the facilities of the Fairfield County Juvenile Court.

LFCS participates in the Ohio School Plan which is considered an insurance purchasing pool. This organization is presented in Note 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the LFCS have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the LFCS's accounting policies are described below.

A. Basis of Presentation

The LFCS's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

LFCS uses a single enterprise presentation for its financial reports. Enterprise reporting focuses on the determination of operating income or loss, changes in net position, financial position, and cash flows.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of LFCS are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how LFCS finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LFCS's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which LFCS receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which LFCS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to LFCS on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by LFCS's contract with its Sponsor. The contract between LFCS and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on a bi-annual basis.

E. Cash and Cash Equivalents

Cash received by LFCS is reflected as "Cash and Cash Equivalents" on the statement of net position. LFCS had no investments during the fiscal year ended June 30, 2013.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the fiscal year in which services are consumed.

G. Capital Assets

LFCS's capital assets during fiscal year 2013 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFCS maintains a capitalization threshold of five hundred dollars. All of LFCS's reported capital assets are depreciated using the straight-line method over six years of useful life.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LFCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

At fiscal year end, LFCS had no restricted net position and no monies restricted by enabling legislation.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of LFCS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of LFCS. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LFCS's deposits may not be returned. LFCS does not have a deposit policy for custodial credit risk. At June 30, 2013, the bank balance of LFCS's deposits was \$19,351. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by LFCS.

Note 4 - Receivables

Receivables at June 30, 2013 consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Improving Teacher Quality Grant	\$88
Owed from Fairfield County Juvenile Court	10,698
Title I Grant	<u>25,354</u>
Total	<u><u>\$36,140</u></u>

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Computer Equipment	\$3,700	\$4,356	\$0	\$8,056
Less Accumulated Depreciation	(3,083)	(1,141)	0	(4,224)
Capital Assets, Net	<u>\$617</u>	<u>\$3,215</u>	<u>\$0</u>	<u>\$3,832</u>

Note 6 - Risk Management

LFCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2013, LFCS joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

The types and amounts of coverage provided are as follows:

Educational General Liability:	
General Aggregate Limit	\$4,000,000
Wrongful Act and Sexual Abuse Injury	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury	2,000,000
Fiduciary Liability - Claims Made:	
Each Occurrence	2,000,000
Aggregate	4,000,000
Employer's Liability for Each Accident	2,000,000
Errors and Omissions:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate Limit (deductible \$2,500)	4,000,000
Employment Practices Injury:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate (deductible \$2,500)	4,000,000

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 7 – Purchased Services

For fiscal year 2013, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Legal and audit services	\$6,281
Fiscal oversight services	600
Licking Area Computer Association for computer services	1,257
Travel reimbursements	4,457
Bank charges	111
Treasurer and board member bonding	860
Fairfield County Educational Service Center for staffing services	100,689
Fairfield County Juvenile Court for staffing services	<u>235,283</u>
Total	<u><u>\$349,538</u></u>

Note 8 – Contract with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center

LFCS signed a contract with the Fairfield County Juvenile Court for use of their facility and for personnel services to teach and supervise the students of LFCS. The Fairfield County Juvenile Court is entitled to seventy percent of the base formula funding, adjusted by the Sponsor's cost of doing business factor, received by the LFCS through the State foundation.

LFCS signed a contract with the Fairfield County Educational Service Center for some teaching services also.

Note 9 – Related Party Transactions

LFCS's Sponsor, Lancaster City Schools, appoints all five Board of Directors. During fiscal year 2013, LFCS had paid miscellaneous reimbursements to the Sponsor in the amount of \$205. Nothing was owed to the Sponsor as of fiscal year-end.

Note 10 – State Teachers Retirement System Plan

LFCS has contracted with the Fairfield County Juvenile Court to provide employee services and to pay those employees. However, these contract services do not relieve LFCS of the obligation for remitting pension contributions. The retirement system considers LFCS as the Employer-of-Record and LFCS is ultimately responsible for remitting retirement contributions to the State Teachers Retirement System.

Plan Description - Certified teachers, employed by LFCS (Employer-of-Record), participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. 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 the State Teachers Retirement System, 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.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 10 – State Teachers Retirement System Plan (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service or an allowance based on member contributions and earned interest matched by STRS Ohio funds, times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent, each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. LFCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2012, the portion used to fund pension obligations was also 13 percent.

LFCS's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2013, 2012, and 2011 were \$37,232, \$31,609, and \$30,940, respectively; 82 percent has been contributed for fiscal year 2013 and 100 percent for years 2012 and 2011. No contributions to the DC or Combined plans for year 2013 were made by LFCS or by the plan members. \$6,823 represents the unpaid contribution for fiscal year 2013.

Note 11 – State Teachers Retirement System Post-Employment Benefits

Plan Description – LFCS contributes to the cost-sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or the 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 or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 11 – State Teachers Retirement System Post-Employment Benefits (Continued)

For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. LFCS's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$2,864, \$2,431 and \$2,380 respectively; 82 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

Note 12 – Pool

LFCS participates in the Ohio School Plan (OSP), and insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a twelve member Board of Directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

Note 13 – Change in Accounting Principles

For fiscal year 2013, LFCS has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 61, "The Financial Reporting Entity: Omnibus," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in LFCS's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. These changes were incorporated in LFCS's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in LFCS's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in LFCS's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows or resources or deferred inflows of resources or recognizes certain items that were

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Note 13 – Change in Accounting Principles (Continued)

previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in LFCS's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in LFCS's financial statements.

Note 14 - Contingencies

A. Grants

LFCS 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 LFCS. However, the effect of any such disallowed claims on the overall financial position of LFCS at June 30, 2013, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFCS. These reviews are conducted to ensure LFCS is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2013, LFCS paid \$12,312 to the Ohio Department of Education for overpayments received during in fiscal year 2012. The fiscal year 2013 Ohio Department of Education review is not available at this time.



Dave Yost • Auditor of State

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

Lancaster-Fairfield Community School
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Lancaster-Fairfield Community School, Fairfield County, Ohio (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School'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, opining 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

October 28, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Lancaster-Fairfield Community School
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

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

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

1. We noted the School amended its anti-harassment policy at its meeting on October 5, 2011 to include prohibiting harassment, intimidation, or bullying of any student by an "electronic act".

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

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

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

Dave Yost
Auditor of State
Columbus, Ohio

October 28, 2013

This page intentionally left blank.



Dave Yost • Auditor of State

LANCASTER FAIRFIELD COMMUNITY SCHOOL

FAIRFIELD 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
DECEMBER 3, 2013