



Dave Yost • Auditor of State

FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis.....	9
Statement of Activities – Cash Basis.....	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances-Governmental Funds.....	11
Statement of Cash Basis Receipts, Disbursements, and Changes In Fund Balances – Governmental Funds.....	12
Statement of Receipts, Disbursements and Changes In Fund Balances (Budgetary Basis) – General Fund.....	13
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds.....	14
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Funds.....	15
Notes to the Basic Financial Statements.....	17
Federal Awards Receipts and Expenditures Schedule.....	43
Notes to the Federal Awards Receipts and Expenditures Schedule.....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance In Accordance with <i>OMB Circular A-133</i>	47
Schedule of Findings.....	49
Schedule of Prior Audit Findings.....	53
Independent Accountants' Report on Applying Agreed-Upon Procedure.....	55

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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, 2011, 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.C., 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, 2011, and the respective changes in cash financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2.C. describes.

As described in Note 3 to the financial statements, for the year ended June 30, 2011, the District revised its financial presentation from accounting principles generally accepted in the United States of America to the cash basis of accounting. The District also implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012, 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. The federal awards receipts and expenditure schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule 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 and the Schedule 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.



Dave Yost
Auditor of State

March 19, 2012

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
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, 2011. 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 2011 are as follows:

In total, net assets decreased \$437,720 from the prior fiscal year. There was a 14 percent decrease in revenues and a 17 percent decrease in expenses; however, expenses were still in excess of revenues for the fiscal year and cash carryover spending led to this decrease.

General revenues accounted for 74 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 Building 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 2011. 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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(CONTINUED)**

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.

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 Building 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 2011 compared to fiscal year 2010.

Table 1			
Net Assets – Cash Basis			
Governmental Activities			
	2011	2010	Change
<u>Assets:</u>			
Cash and Cash Equivalents	\$2,417,832	\$2,855,552	(\$437,720)
<u>Net Assets:</u>			
Restricted	\$1,058,049	\$1,823,383	(\$765,334)
Unrestricted	1,359,783	1,032,169	327,614
Total	\$2,417,832	\$2,855,552	(\$437,720)

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(CONTINUED)**

Table 2 reflects the changes in net assets for fiscal year 2011. This is the first year of implementation of the cash basis of accounting. Comparative figures are not available for fiscal year 2010. A comparative analysis will be provided in future years when prior year information is available

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

	<u>2011</u>
<u>Revenues:</u>	
Program Revenues:	
Charges for Services and Sales	\$283,838
Operating Grants, Contributions and Interest	875,150
Capital Grants and Contributions	390,020
Total Program Revenues	<u>1,549,008</u>
General Revenues:	
Property Taxes	1,271,707
Income Taxes	357,091
Grants and Entitlements	2,620,782
Gifts and Donations	810
Investment Earnings	24,398
Miscellaneous	13,697
Proceeds from Sale of Capital Assets	1,500
Refund of Prior Year Expenditures	462
Total General Revenues	<u>4,290,447</u>
Total Revenues	<u>5,839,455</u>
<u>Expenses:</u>	
Instruction	2,997,962
Support Services:	
Pupils	339,033
Instructional Staff	193,358
Board of Education	10,875
Administration	408,982
Fiscal	174,744
Operation and Maintenance of Plant	411,731
Pupil Transportation	281,200
Central	50,953
Non-Instructional	196,348
Extracurricular Activities	183,847
Capital Outlay	698,192
Principal	120,000
Interest and Fiscal Charges	209,950
Total Expenses	<u>6,277,175</u>
Decrease in Net Assets	<u>(\$437,720)</u>

Program receipts account for 26 percent of total receipts and are represented by restricted intergovernmental receipts, extracurricular activities, and food service sales.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(CONTINUED)**

The major program disbursements for governmental activities are for instruction, which accounts for 48 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. Capital outlay and maintenance of the District's facilities also represent significant disbursements of 11 and 7 percent, respectively. The remaining 21 percent of the District's 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 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**

	Total Cost of Services	Net Cost of Services
	2011	2011
Instruction	\$2,997,962	\$2,322,984
Support Services:		
Pupils	339,033	333,915
Instructional Staff	193,358	137,515
Board of Education	10,875	10,875
Administration	408,982	403,832
Fiscal	174,744	174,744
Operation and Maintenance of Plant	411,731	301,615
Pupil Transportation	281,200	210,914
Central	50,953	41,520
Non-Instructional	196,348	13,216
Extracurricular Activities	183,847	138,915
Capital Outlay	698,192	308,172
Principal	120,000	120,000
Interest and Fiscal Charges	209,950	209,950
Total Expenses	<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 77 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 75 percent. The remaining 25 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.

The General Fund's balance decreased \$121,808 or 8 percent from the prior fiscal year. The decrease is a result of lower income tax, tuition, and interest revenues, which can all be attributed to the ongoing economic condition.

The Building Fund's balance decreased \$487,631 or 47 percent from the prior fiscal year. The decrease is a result of capital outlay payments to construct a wind turbine.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
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 2011, 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 2 percent

Original to final budgeted disbursements and other financing uses varied by less than 1 percent. Actual disbursements and other financing uses were 7 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 \$4,960,041.

For further information regarding the District's debt, 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 and was in full operation in mid January 2011 generating alternate energy. Along with the wind turbine, the district is switching to primary power. A combination of both sources will reduce the district's energy costs by 30-40%.

Enrollment numbers are trending low, which causes the district to re-evaluate business practices and align staff to class size and educational programs.

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, P.O. Box 309, Fayette, OH 43521-9462.

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**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets - Cash Basis
June 30, 2011**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>2,417,832</u>
Net Assets:	
Restricted for Debt Service	\$ 151,069
Restricted for Capital Outlay	730,719
Restricted for Other Purposes	176,261
Unrestricted	<u>1,359,783</u>
<i>Total Net Assets</i>	\$ <u>2,417,832</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, 2011**

<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 2,227,995	\$ 156,582	\$ 271,499	\$ (1,799,914)
Special	658,670		240,745	(417,925)
Vocational	104,508			(104,508)
Other	6,789		6,152	(637)
Support Services:				
Pupils	339,033		5,118	(333,915)
Instructional Staff	193,358		55,843	(137,515)
Board of Education	10,875			(10,875)
Administration	408,982		5,150	(403,832)
Fiscal	174,744			(174,744)
Operation and Maintenance of Plant	411,731		110,116	(301,615)
Pupil Transportation	281,200		70,286	(210,914)
Central	50,953		9,433	(41,520)
Operation of Non-Instructional Services	196,348	82,324	100,808	(13,216)
Extracurricular Activities	183,847	44,932		(138,915)
Capital Outlay	698,192		\$ 390,020	(308,172)
Debt Service:				
Principal	120,000			(120,000)
Interest and Fiscal Charges	209,950			(209,950)
Totals	\$ <u>6,277,175</u>	\$ <u>283,838</u>	\$ <u>875,150</u>	\$ <u>390,020</u>
				<u>(4,728,167)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,008,146
Property Taxes, Levied for Debt Service				247,458
Property Taxes, Levied for Capital Maintenance				16,103
Income Taxes				357,091
Grants and Entitlements not Restricted to Specific Programs				2,620,782
Gifts and Donations				810
Investment Earnings				24,398
Miscellaneous				13,697
Proceeds from Sale of Capital Assets				1,500
Refund of Prior Year Expenditures				462
Total General Revenues				<u>4,290,447</u>
Change in Net Assets				<u>(437,720)</u>
Net Assets Beginning of Year (Restated)				<u>2,855,552</u>
Net Assets at End of Year				\$ <u>2,417,832</u>

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, 2011**

	<u>General Fund</u>	<u>Building Fund - LFI</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ <u>1,382,524</u>	\$ <u>540,699</u>	\$ <u>494,609</u>	\$ <u>2,417,832</u>
Fund Balances:				
Restricted	\$ 19,651	\$ 540,699	\$ 304,589	\$ 864,939
Committed			190,020	190,020
Assigned	38,578			38,578
Unassigned	<u>1,324,295</u>			<u>1,324,295</u>
<i>Total Fund Balances</i>	\$ <u>1,382,524</u>	\$ <u>540,699</u>	\$ <u>494,609</u>	\$ <u>2,417,832</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	<u>General Fund</u>	<u>Building Fund - LFI</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Property and Other Local Taxes	\$ 1,008,146		\$ 263,561	\$ 1,271,707
Income Tax	357,091			357,091
Intergovernmental	2,640,628		1,055,304	3,695,932
Interest	14,402	\$ 9,996	20	24,418
Tuition and Fees	127,334			127,334
Rent	348			348
Extracurricular Activities	28,900		44,932	73,832
Gifts and Donations	810		190,000	190,810
Customer Sales and Services			82,324	82,324
Miscellaneous	6,648		7,049	13,697
<i>Total Receipts</i>	<u>4,184,307</u>	<u>9,996</u>	<u>1,643,190</u>	<u>5,837,493</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,048,430		179,565	2,227,995
Special	512,883		145,787	658,670
Vocational	104,508			104,508
Other	637		6,152	6,789
Support Services:				
Pupils	300,523		38,510	339,033
Instructional Staff	139,258		54,100	193,358
Board of Education	10,875			10,875
Administration	390,914		18,068	408,982
Fiscal	167,031		7,713	174,744
Operation and Maintenance of Plant	231,900		179,831	411,731
Pupil Transportation	227,983		53,217	281,200
Central	26,949		24,004	50,953
Operation of Non-Instructional Services	3,500		192,848	196,348
Extracurricular Activities	137,221		46,626	183,847
Capital Outlay		498,192	200,000	698,192
Debt Service:				
Principal			120,000	120,000
Interest			209,950	209,950
<i>Total Disbursements</i>	<u>4,302,612</u>	<u>498,192</u>	<u>1,476,371</u>	<u>6,277,175</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(118,305)</u>	<u>(488,196)</u>	<u>166,819</u>	<u>(439,682)</u>
Other Financing Sources and (Uses):				
Transfers In		565	5,015	5,580
Proceeds from Sale of Capital Assets	1,500			1,500
Refund of Prior Year Expenditures	12		450	462
Transfers Out	(5,015)		(565)	(5,580)
<i>Total Other Financing Sources and (Uses)</i>	<u>(3,503)</u>	<u>565</u>	<u>4,900</u>	<u>1,962</u>
<i>Net Change in Fund Balances</i>	(121,808)	(487,631)	171,719	(437,720)
Fund Balance at Beginning of Year (Restated)	1,504,332	1,028,330	322,890	2,855,552
<i>Fund Balance at End of Year</i>	<u>\$ 1,382,524</u>	<u>\$ 540,699</u>	<u>\$ 494,609</u>	<u>\$ 2,417,832</u>

See Accompanying Notes to the Basic Financial Statements

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Receipts, Disbursements, and Changes
in Fund Balances - (Budgetary Basis)
GENERAL FUND
For the Fiscal Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Receipts:				
Property and Other Local Taxes	\$ 1,017,534	\$ 1,006,781	\$ 1,008,146	\$ 1,365
Income Tax	350,328	357,091	357,091	
Intergovernmental	2,615,751	2,532,540	2,640,628	108,088
Interest	18,000	18,000	14,402	(3,598)
Tuition and Fees	115,739	123,739	127,334	3,595
Rent	200	500	348	(152)
Miscellaneous	30,100	30,100	6,648	(23,452)
<i>Total Receipts</i>	<u>4,147,652</u>	<u>4,068,751</u>	<u>4,154,597</u>	<u>85,846</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,110,122	2,085,673	2,025,695	59,978
Special	509,470	509,534	512,883	(3,349)
Vocational	109,348	111,624	104,508	7,116
Other	2,250	2,250	637	1,613
Support Services:				
Pupils	336,953	318,451	300,523	17,928
Instructional Staff	181,953	180,209	145,205	35,004
Board of Education	34,150	34,150	12,933	21,217
Administration	429,701	429,673	391,323	38,350
Fiscal	196,274	196,324	167,031	29,293
Operation and Maintenance of Plant	272,157	272,891	234,222	38,669
Pupil Transportation	249,564	246,459	228,583	17,876
Central	69,100	69,100	26,949	42,151
Operation of Non-Instructional Services	3,500	3,500	3,500	
Extracurricular Activities	154,165	154,926	137,221	17,705
Capital Outlay	7,500	7,500		7,500
<i>Total Disbursements</i>	<u>4,666,207</u>	<u>4,622,264</u>	<u>4,291,213</u>	<u>331,051</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(518,555)</u>	<u>(553,513)</u>	<u>(136,616)</u>	<u>416,897</u>
Other Financing Sources and (Uses):				
Advances In	5,000	5,000		(5,000)
Proceeds from Sale of Capital Assets		1,500	1,500	
Refund of Prior Year Expenditures		12	12	
Transfers Out		(5,015)	(5,015)	
Advances Out	(5,000)	(5,000)		5,000
<i>Total Other Financing Sources and (Uses)</i>	<u>(5,000)</u>	<u>(3,503)</u>	<u>(3,503)</u>	
<i>Net Change in Fund Balances</i>	(518,555)	(557,016)	(140,119)	416,897
Fund Balance at Beginning of Year	1,434,038	1,434,038	1,434,038	
Prior Year Encumbrances Appropriated	50,644	50,644	50,644	
<i>Fund Balance at End of Year</i>	<u>\$ 966,127</u>	<u>\$ 927,666</u>	<u>\$ 1,344,563</u>	<u>\$ 416,897</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, 2011

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>15,098</u>	\$ <u>32,732</u>
Liabilities:		
Undistributed Monies		\$ <u>32,732</u>
Net Assets:		
Held in Trust for Scholarships	\$ <u>15,098</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, 2011**

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 90
Deductions:	
Payments in Accordance with Trust Agreements	<u>460</u>
<i>Change in Net Assets</i>	(370)
Net Assets Beginning of Year	<u>15,468</u>
Net Assets End of Year	<u>\$ 15,098</u>

See Accompanying Notes to the Basic Financial Statements

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**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 600th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 15 classified employees, 33 certified teaching personnel, and 7 administrative employees who provide services to 477 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 Education Council's Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Normal Memorial Library. These organizations are presented in Notes 16, 17, and 18 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, 2011
(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, 2011
(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 Building 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.

Building Fund – The Building Fund accounts for local resources used for the construction of the new school and a wind turbine.

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 funds of the District consist of agency funds. 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.

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in 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.

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

During fiscal year 2011, investments included nonnegotiable certificates of deposit, federal agency securities, money market mutual funds, and STAR Ohio. 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, 2011.

The Board of Education allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2011 was \$14,402, which includes \$2,592 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 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Change in Basis of Accounting

For 2011, the District ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2.C.

B. Restatement of Fund Balance/Net Assets

For fiscal year 2011, the District modified its financial statements to reflect the modifications outlined in GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

The restatement due to the change in the basis of accounting and the implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds of the District as they were previously reported.

	General Fund	Building Fund	Other Governmental Funds
Fund Balance, June 30, 2010	\$1,172,473	\$1,028,330	\$363,021
Eliminate Asset Accruals	(1,235,634)		(302,526)
Eliminate Liability Accruals	1,547,842		282,046
Change in Fund Structure	19,651		(19,651)
Restated Fund Balance, June 30, 2010	<u>\$1,504,332</u>	<u>\$1,028,330</u>	<u>\$322,890</u>

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

Governmental Activities Net Assets June 30, 2010	\$14,920,372
Eliminate Government-Wide Financial Statement Adjustments:	
Material and Supplies Inventory	(8,259)
Accrued Interest Receivable	(2,020)
Accounts Receivable	(7,664)
Intergovernmental Receivable	(15,295)
Income Taxes Receivable	(148,223)
Taxes Receivable	(1,352,691)
Unamortized Issuance Cost	(91,436)
Capital Assets	(17,502,644)
GAAP Adjustment to Cash in Prior Audit	(2,700)
Accounts Payable	17,868
Accrued Wages and Benefits	397,219
Intergovernmental Payable	127,953
Accrued Interest Payable	15,996
Deferred Revenue	1,197,926
Matured Compensated Absences Payable	15,067
Separation Benefits Payable	11,400
Long Term Liabilities	5,282,683
Adjusted Governmental Activities Net Assets June 30, 2010	\$2,855,552

4. 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 is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

Net Change in Fund Balance	General Fund
Cash Basis (as Reported)	\$(121,808)
Outstanding Encumbrances	(15,221)
Perspective Difference:	
Activity of Fund Reclassified for Cash Reporting Purposes	(3,090)
Budgetary Basis	\$(140,119)

5. 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, 2011
(Continued)**

5. 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, 2011
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, 2011, the District had the following investments.

	<u>Cost</u>	<u>Maturity</u>
Federal Home Loan Bank Bonds	\$50,000	12/22/14
Federal Home Loan Bank Bonds	151,845	05/16/15
Federal Home Loan Bank Bonds	11,303	06/12/15
Federal Home Loan Bank Bonds	5,000	04/25/14
Federal Home Loan Bank Bonds	50,062	08/26/15
Federal Home Loan Bank Bonds	30,000	12/22/14
Federal Home Loan Bank Bonds	75,716	11/28/14
Federal Home Loan Bank Bonds	15,570	05/13/13
Federal Home Loan Bank Bonds	79,165	09/11/15
Federal Home Loan Bank Bonds	22,606	06/12/15
Federal Home Loan Bank Bonds	21,400	03/09/12
Federal National Mortgage Association Notes	49,852	10/29/15
Federal National Mortgage Association Notes	49,893	11/12/15
Federal National Mortgage Association Notes	10,088	09/29/14
Federal National Mortgage Association Notes	51,723	07/23/15
Federal National Mortgage Association Notes	25,219	09/29/14
Federal Home Loan Mortgage Corporation Notes	9,985	04/12/16
Federal Home Loan Mortgage Corporation Notes	20,105	02/26/14
Federal Home Loan Mortgage Corporation Notes	21,601	08/15/12
Mutual Funds	150,914	Average 32 Days
	<u>\$902,047</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.

Credit Risk – The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Bonds, and money market mutual funds 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 money market mutual funds must be rated, at the time of purchase, in the highest category by at least one nationally recognized standard rating service.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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, 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' acceptances 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.

	Cost	Percentage of Portfolio
Federal Home Loan Bank Bonds	\$512,667	56.83%
Federal National Mortgage Association Notes	186,775	20.70%
Federal Home Loan Mortgage Corporation Notes	51,691	5.73%

6. 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.

7. 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, 2011
(Continued)**

7. 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 2011 represent the collection of calendar year 2010 taxes. Real property taxes for 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 were levied after April 1, 2010, on the assessed values as of December 31, 2009, 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 2011 (other than public utility property) represent the collection of calendar year 2011 taxes. Tangible personal property taxes for 2011 were levied after April 1, 2010, on the value as of December 31, 2009. 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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$33,619,240	84.70%	\$33,697,340	84.60%
Industrial/Commercial	4,137,030	10.42%	4,150,330	10.40%
Public Utility	1,934,240	4.88%	1,989,490	5.00%
Total Assessed Value	<u>\$39,690,510</u>	<u>100.00%</u>	<u>\$39,837,160</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$55.30		\$55.30	

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>
Governmental Activities				
Land	\$321,608			\$321,608
Construction in Progress	375,643	\$498,192		873,835
Land Improvements	33,528			33,528
Buildings and Building Improvements	16,704,938	3,485		16,708,423
Furniture, Fixtures, and Equipment	742,198	4,750	\$11,038	735,910
Vehicles	497,769	54,056	49,088	502,737
Total Capital Assets	<u>\$18,675,684</u>	<u>\$560,483</u>	<u>\$60,126</u>	<u>\$19,176,041</u>

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the District contracted for the following insurance coverage.

The District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
General Aggregate	3,000,000
Building and Contents	20,774,719
Vehicle Liability	1,000,000
Uninsured Motorists	1,000,000
Violence Liability	1,000,000
Disaster Property Coverage	2,000,000

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

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes medical, dental, vision, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. RISK MANAGEMENT (Continued)

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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. Participation in the Plan is limited to 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.

10. DEFINED PENSION BENEFIT PLANS

A. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling toll free (888) 227-7877, or by visiting the STRS Ohio website at 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% of earned compensation among various investment choices. The Combined Plan offers features of 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 a defined benefit payment at a reduced level from the regular DB Plan. Contributions into 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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. DEFINED PENSION BENEFIT PLANS (Continued)

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 the "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 years service credit (including Ohio-valued purchased credit) times the final average salary. The 31st 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.

DC Plan Benefits - Benefit 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 alternatively 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 includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. DEFINED PENSION BENEFIT PLANS (Continued)

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 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, 2011, 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. For fiscal year 2011, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$262,824, \$282,744, and \$280,150, respectively; 81 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 can be obtained by visiting the SERS website at www.ohsers.org, under Forms and Publications.

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, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 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, 2011, 2010 and 2009 were \$72,081, \$65,809, and \$49,973, respectively; 63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, four members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. 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 or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Health 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 Plan. All benefit recipients pay a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, 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, 2011, 2010, and 2009 were \$20,217, \$21,750, and \$21,550, respectively; 81 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 (SERS) 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 2011 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 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 was \$4,639, \$3,914, and \$4,123, respectively; 63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. 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 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned health care for the years ended June 30, 2011, 2010, and 2009 were \$16,139, \$22,369, and \$21,592 respectively; 34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 under Employers/Audit Resources.

12. 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 Education Council Employee Insurance Benefits Program.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. OTHER EMPLOYEE BENEFITS (Continued)

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 \$300 for each year served in the first year eligible to retire; \$200 for each year served in the second year eligible to retire; and \$100 for each year served in the third 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.

13. LONG-TERM OBLIGATIONS

During the year ended June 30, 2011 the following changes occurred in obligations reported in the government-wide financial statements:

	<u>Balance at 06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/11</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%	510,000		\$120,000	390,000
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	62,320	\$17,722		80,042
Total General Obligation Bonds	<u>\$5,062,319</u>	<u>\$17,722</u>	<u>\$120,000</u>	<u>\$4,960,041</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, 2011, \$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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

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.

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:

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

Maturity Date (December 1)	Principal Amount
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 2011, \$17,722 was accreted for a total bond value of \$170,041 at fiscal year end.

The District's overall debt margin was \$3,557,359 with an unvoted debt margin of \$37,848 at June 30, 2011.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2011 are as follows:

Year Ending June 30,	Serial	Term	Capital Appreciation	Interest	Total
2012	\$125,000			\$205,356	\$330,356
2013	130,000			200,412	330,412
2014	135,000			195,112	330,112
2015			\$91,509	240,903	332,412
2016			78,532	253,880	332,412
2017-2021		\$755,000		888,919	1,643,919
2022-2026	450,000	925,000		648,059	2,023,059
2027-2031		1,150,000		390,165	1,540,165
2032-2035		1,120,000		104,878	1,224,878
Total	\$840,000	\$3,950,000	\$170,041	\$3,127,684	\$8,087,725

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. CAPITALIZED LEASES – LESSEE DISCLOSURE

The District has entered into capitalized lease for a vehicle. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments in fiscal year 2011 were \$18,117.

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, 2011:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$18,923	\$1,721
2013	19,764	880
	<u>\$38,687</u>	<u>\$2,601</u>

15. 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 purchase of textbooks and other instructional materials and an equal amount 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.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-Aside Reserve Balance as of June 30, 2010			
Current Year Set-aside Requirement	\$65,252	\$65,252	\$130,504
Current Year Qualifying Expenditures	(48,864)		(48,864)
Excess Qualified Disbursements from Prior Years	(177,807)		(177,807)
Current Year Offsets		(65,252)	(65,252)
Total	<u>(\$161,419)</u>	<u> </u>	<u>(\$161,419)</u>
Balance Carried Forward to Fiscal Year 2012	<u>(\$161,419)</u>	<u> </u>	<u>(\$161,419)</u>

The District had qualifying expenditures during the year that reduced the textbook set-aside amounts to below zero. This amount may be used to reduce the set-aside requirement in future fiscal years.

16. 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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 2010, the District paid \$70,518 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.

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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

17. GROUP PURCHASING POOLS

A. Ohio School Plan

The District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. Northern Buckeye Education Council's Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Program is governed by the Northern Buckeye Educational Council (NBEC) and participating members.

C. Northern Buckeye Education Council's 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 Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

18. 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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

19. CONTINGENCIES

A. Grants

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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

B. Litigation

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

20. INTERFUND TRANSFERS

During the year ended June 30, 2011, the General Fund transferred \$5,000 to the Athletics Fund and \$15 to the Title II-D Fund, which are both Non-Major Governmental funds. The transfers were made to subsidize athletic programs and grant expenditures exceeding funding.

The Ohio School Facilities Construction (OSFC) Fund, a Non-Major Governmental fund, transferred \$565 to the Building Fund. The transfer was made to close out the OSFC Fund.

21. 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.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

21. FUND BALANCE (Continued)

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>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Restricted for:				
Regular Instruction	\$19,651		\$19,320	\$38,971
Special Instruction			3,837	3,837
Athletics			5,108	5,108
Food Service			24,120	24,120
Operations				
Facilities			101,135	101,135
Maintenance				
Debt Retirement			151,069	151,069
Permanent				
Improvement		\$540,699		540,699
Total Restricted	<u>19,651</u>	<u>540,699</u>	<u>304,589</u>	<u>864,939</u>
Committed for:				
Athletic Facilities			190,020	190,020
Assigned for:				
Educational Activities	22,740			22,740
Unpaid Obligations (encumbrances)	15,838			15,838
Total Assigned	<u>38,578</u>			<u>38,578</u>
Unassigned	1,324,295			1,324,295
Total Fund Balance	<u>\$1,382,524</u>	<u>\$540,699</u>	<u>\$494,609</u>	<u>\$2,417,832</u>

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program - Cash Assistance	10.553	\$17,863	\$17,863
National School Lunch Program	10.555		
Cash Assistance		80,502	80,502
Non- Cash Assistance (Food Distribution)		31,205	31,205
Total National School Lunch Program		<u>111,707</u>	<u>111,707</u>
Total U.S. Department of Agriculture		<u>129,570</u>	<u>129,570</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	50,665	48,480
ARRA - Title I Grants to Local Educational Agencies	84.389	5,071	3,763
Total Title I Cluster		<u>55,736</u>	<u>52,243</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	9	9
Title II-D Technology Grant	84.318	172	234
Improving Teacher Quality State Grants	84.367	3,480	2,539
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	186,792	190,610
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395	8,226	6,685
Ed Jobs	84.410	110,912	99,456
Direct Assistance			
Rural Education	84.358	<u>39,907</u>	<u>39,917</u>
Total U.S. Department of Education		<u>405,234</u>	<u>391,693</u>
Totals		<u>\$534,804</u>	<u>\$521,263</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Fayette Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.



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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2012, wherein we noted the District changed its accounting basis from accounting principles generally accepted in the United States of America to the cash basis and adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 opinion 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-002 described in the accompanying schedule of findings to be a material weakness.

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

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 19, 2012.

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, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 19, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Fayette Local School District, Fulton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Fayette Local School District, Fulton County complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 19, 2012.

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



Dave Yost
Auditor of State

March 19, 2012

**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster – CFDA #10.553 and 10.555 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants – CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

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 2011, 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.

FINDING NUMBER 2011-002

Material Weakness – Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments:

- The District received a donation from an estate. The donation of \$190,000 and subsequent interest of \$20 earned on it are to be used for future athletic facilities. A private purpose trust fund was used for this activity instead of a special revenue fund and included in All Other Governmental Funds.
- The District recorded expenditures as reduction of receipts totaling \$218,696 against the K-12 Connectivity Grant (\$16,241), Ohio Department of Development Energy Grant (\$200,000), and Title III grant (\$2,572). This resulted in an understatement in receipts and disbursements of \$218,696 in All Other Governmental Funds.

These adjustments have been posted to the District's financial statements.

**FINDING NUMBER 2011-002
(Continued)**

Sound financial reporting is the responsibility of the fiscal officer and the governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the District's financial statements and notes to the statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and the audit committee, to identify and correct errors and omissions. In addition, the Treasurer should also review the Uniform School Accounting System's chart of accounts to ensure all accounts are being properly posted to the financial statements.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS FOR FEDERAL AWARDS

None.

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**FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	<p>Finding for Recovery Repaid Under Audit</p> <p>Retired teacher was compensated for 3 days in excess of the maximum number of days allowed as stipulated in Article V (G)(3) of the Negotiated Agreement between the Board and Fayette Teachers Association. This resulted in a finding for recovery in the amount of \$1,035.</p>	Yes	

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

We noted the Board amended its anti-harassment policy at its meeting on April 18, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 of Education 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

March 19, 2012



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
MARCH 29, 2012