

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
Regular Audit
For the Year Ended June 30, 2009**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Board of Education
Fairlawn Local School District
18800 Johnstown Road
Sidney, Ohio 45365

We have reviewed the *Independent Accountants' Report* of the Fairlawn Local School District, Shelby County, prepared by Perry and Associates, CPA's A. C., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fairlawn Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 11, 2011

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

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INDEPENDENT ACCOUNTANTS' REPORT

November 19, 2010

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Fairlawn Local School District, Shelby County, Ohio** (the School District), as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairlawn Local School District, Shelby County, as of June 30, 2009, and the respective changes in cash financial position and respective budgetary comparison for the General Fund thereof for the year then ended in the conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an internal part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED**

The discussion and analysis of Fairlawn Local School District's (the School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2009, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for 2009 are as follows:

In total, net assets of governmental activities decreased by \$3,669,736. The funds most affected by the decrease in cash and cash equivalents were the OSFC Fund and Building Fund. The School District passed a building levy in November 2006. The School District entered into an agreement with the Ohio School Facilities Committee (State of Ohio) to help fund a new K-12 school building. The total project is approximately \$18,000,000 with the state paying 83% and School District 17%. The School District also has Local Funded Projects (LFP) of approximately \$1,900,000. The District is about 75% complete with the building project. The building will be complete in September 2009.

The School District's general fund receipts, those being primarily property and income tax and unrestricted state aid, were 80 percent of the total general fund cash received during the fiscal year. Dependence on these three revenue sources is significant.

The School District received \$770,000 in open enrollment tuition revenue from the state. This represents 6% of the total cash received during the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transaction.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Fairlawn Local School District, the General Fund is the most significant fund. The Bond Retirement Fund (002), Building Fund (004) and OSFC Building Fund (010) were also major funds in 2009.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2009, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year-end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors that contribute to these changes may also include the School District's property tax base, enrollment, required educational programs and other factors.

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support service, non-instructional, food services, extracurricular activities, debt service, and capital outlay disbursements.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the General Fund, Bond Retirement Fund, Building Fund and OSFC Fund are the most significant.

Governmental Funds – the School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide a detailed short-term view of the School District's operations. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the cash basis of accounting.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2009 compared to fiscal year 2008.

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

	<u>2009</u>	<u>2008</u>
Assets:		
Current and Other Assets	\$ 10,316,903	\$ 13,986,639
Total Assets	<u>10,316,903</u>	<u>13,986,639</u>
Net Assets:		
Restricted	8,145,130	12,185,025
Unrestricted	<u>2,171,773</u>	<u>1,801,614</u>
Total Net Assets	<u>\$ 10,316,903</u>	<u>\$ 13,986,639</u>

The total net assets, for governmental activities, decreased by \$3,669,736. The primary reasons contributing to the decreases in cash balance are as follows:

1. The School District passed a \$5,800,000 levy as part of its share (17%) of a new K-12 building project. The State of Ohio through the Ohio School Facilities Commission is paying the remaining 83% of the project. The project is estimated to cost around \$18,000,000. The School District spent about \$3,400,000 more than it received in FY09.
2. The School District also had local funded projects ongoing. The School District has currently obligated \$1,900,000 towards local funded projects. In fiscal year 2009, the District has spent \$877,649 on these local funded projects.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

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

	<u>2009</u>	<u>2008</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 1,030,763	\$ 1,114,022
Operating Grants and Contributions	446,137	431,823
Capital Grants and Contributions	7,864,288	6,413,491
General Revenues:		
Property Taxes	1,200,272	1,119,382
Income Taxes	347,090	326,352
Grants and Entitlements	2,478,261	2,315,351
Interest	292,551	375,939
Miscellaneous	43,964	11,778
Total Revenues	<u>13,703,326</u>	<u>12,108,138</u>
Program Expenses		
Instruction:		
Regular	1,854,472	1,910,031
Special	385,135	349,005
Adult/Continuing	30,678	20,225
Support Services:		
Pupil	243,785	193,658
Instructional Staff	363,193	324,239
Board of Education	10,350	11,208
Administration	513,685	483,529
Fiscal	224,200	208,000
Business	4,634	4,682
Operation and Maintenance of Plant	407,576	367,578
Pupil Transportation	298,660	373,291
Operational of Non-Instructional	204,296	193,296
Extracurricular Activities	145,275	156,673
Capital Outlay	12,336,334	1,110,047
Debt Service:		
Principal	125,000	90,000
Interest and Fiscal Charges	225,789	230,089
Total Program Expenses	<u>17,373,062</u>	<u>6,025,551</u>
Other Financing Sources (Uses)		
Transfers In	3,631,947	18,256
Transfers Out	(3,631,947)	(21,256)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,000)</u>
Increase (Decrease) in Net Assets	<u>(3,669,736)</u>	<u>6,079,587</u>
Net Assets Beginning of Year	<u>13,986,639</u>	<u>7,907,052</u>
Net Assets End of Year	<u>\$ 10,316,903</u>	<u>\$ 13,986,639</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

In 2009, program receipts represent a total of 68% of total receipts. This is primarily due to the School District having a high number of incoming open enrollment students. Open enrollment revenue consists of 5.6% of total receipts. Also, the School District is receiving state OSFC building fund revenue. Restricted intergovernmental receipts, tuition, food service, fees and extracurricular activities also make up program receipts

The major program disbursements for governmental activities are for instruction-13% and Capital Outlay – 71%. Support services, which include administration, fiscal, operation and maintenance of plant, and pupil transportation expenses represent a significant amount of the School District's governmental expenses if it wasn't for the building program ongoing. Debt service accounted for 2% of all governmental expenses.

The following table indicates the total cost of service and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services.

**Table 3
Governmental Activities**

	Total Cost of Service 2009	Net Cost of Service 2009	Total Cost of Service 2008	Net Cost of Service 2008
Instruction:				
Regular	\$1,854,472	(\$917,987)	\$1,910,031	(\$922,887)
Special	385,135	(163,453)	349,005	(102,388)
Adult/Continuing	30,678	(30,678)	20,225	(20,225)
Support Services:				
Pupil	243,785	(227,393)	193,658	(191,658)
Instructional Staff	363,193	(357,996)	324,239	(322,169)
Board of Education	10,350	(10,350)	11,208	(11,208)
Administration	531,685	(531,685)	483,529	(483,529)
Fiscal	224,200	(221,200)	208,000	(205,000)
Business	4,634	(4,634)	4,682	(4,682)
Operation and Maintenance of Plant	407,576	(407,059)	367,578	(364,056)
Pupil Transportation	298,660	(294,560)	373,291	(373,291)
Operation of Non-Instructional	204,296	1,547	193,296	17,530
Extracurricular Activities	145,275	(117,033)	156,673	(110,094)
Capital Outlay	12,336,334	(4,468,096)	1,110,047	5,303,444
Debt Service:				
Principal	125,000	(125,000)	90,000	(88,416)
Interest and Fiscal Charges	225,789	(174,297)	230,089	(187,586)
Total	\$17,373,062	(\$8,031,874)	\$10,717,842	(\$8,638,615)

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Governmental Activities Financial Analysis

The School District's governmental funds are accounted for using cash basis accounting. The School District's major governmental funds are the General Fund, Bond Retirement Fund, Building Fund and OSFC Building Fund. The net change in fund balance in the General Fund reflects an increase of \$370,161, Bond Retirement increase of \$44,926, Building Fund increase of \$2,676,037, and OSFC Fund decrease of \$6,920,861.

- The School District has been able to maintain enrollment and keep state funding consistent with prior years.
- The School District has been able to control salary and benefit costs.

Budgetary Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted funds are the General Fund, Bond Retirement Fund, Building Fund and OSFC Fund. During fiscal year 2009, the School District amended its General Fund and Bond Retirement Fund budgets as needed. The School District uses a site based budgeting to allow flexibility for each individual school district management.

The School District did increase its estimated budgeted revenue for the Building Fund by \$1,740,000 for the year.

The original appropriations of the General fund were increased by \$125,000 throughout the year. The School District was able to keep spending very close to budgeted amounts as demonstrated by the minor changes.

Debt Administration

The School District issued bonds for \$5,800,000 in March 2007. The bonds will be repaid by the voters approving a 10.34 mill levy in November 2006. The School District repaid \$125,000 in principal in 2009.

Current Issues

The School District is financially stable. However, future finances are not without challenges as enrollment changes and state funding is revised. The School District is very heavily reliant on state funding. The School District has very little growth in its property valuation.

The School District helped pass a new law in June 2008 that decreased the School District's percentage of the OSFC building project from 32% to 17%. The additional funds will be used to finance additional building projects. The School District and OSFC amended its Master agreement to reflect the new percentages.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Keith Doseck, Treasurer, Fairlawn Local School District, 18800 Johnston Road, Sidney, Ohio 45365.

FAIRLAWN LOCAL SCHOOL DISTRICT

*Statement of Net Assets-Cash Basis
For the Fiscal Year Ended June 30, 2009*

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 10,316,903</u>
<i>Total Assets</i>	<u><u>10,316,903</u></u>
Net Assets	
Restricted for:	
Capital Projects	7,698,679
Debt Service	174,639
Other Purposes	271,812
Unrestricted	<u>2,171,773</u>
<i>Total Net Assets</i>	<u><u>\$ 10,316,903</u></u>

See accompanying notes the the financial Statements.

FAIRLAWN LOCAL SCHOOL DISTRICT

*Statement of Activities-Cash Basis
For the Fiscal Year Ended June 30, 2009*

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 1,854,472	\$ 776,761	\$ 159,724	-	\$ (917,987)
Special	385,135	99,183	122,499	-	(163,453)
Adult/Continuing	30,678	-	-	-	(30,678)
Support Services:					
Pupil	243,785	10,564	5,828	-	(227,393)
Instructional Staff	363,193	-	5,197	-	(357,996)
Board of Education	10,350	-	-	-	(10,350)
Administration	513,685	-	-	-	(513,685)
Fiscal	224,200	-	3,000	-	(221,200)
Business	4,634	-	-	-	(4,634)
Operation and Maintenance of Plant	407,576	-	517	-	(407,059)
Pupil Transportation	298,660	-	4,100	-	(294,560)
Operation of Non-Instructional	204,296	112,063	93,780	-	1,547
Extracurricular Activities	145,275	28,242	-	-	(117,033)
Capital Outlay	12,336,334	3,950	-	7,864,288	(4,468,096)
Debt Service:					
Principal	125,000	-	-	-	(125,000)
Interest and Fiscal Charges	225,789	-	51,492	-	(174,297)
Totals	\$ 17,373,062	\$ 1,030,763	\$ 446,137	\$ 7,864,288	\$ (8,031,874)

General Revenues

Property Taxes Levied for:	
General Purposes	\$ 847,660
Debt Service	352,612
Income Taxes Levied for:	
General Purposes	347,090
Grants and Entitlements not Restricted to Specific Programs	2,478,261
Interest Income	292,551
Miscellaneous	43,964
Total General Revenues	4,362,138
Change in Net Assets	(3,669,736)
<i>Net Assets Beginning of Year</i>	<u>13,986,639</u>
<i>Net Assets End of Year</i>	<u>\$ 10,316,903</u>

See accompanying notes to the financial statements.

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Cash Basis Assets and Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General	Bond Retirement	OSFC	Building	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,171,775	\$ 174,639	\$ 5,007,549	\$ 2,676,037	\$ 286,903	\$ 10,316,903
<i>Total Assets</i>	<u>2,171,775</u>	<u>174,639</u>	<u>5,007,549</u>	<u>2,676,037</u>	<u>286,903</u>	<u>10,316,903</u>
Fund Balances						
Reserved for Encumbrances	65,153	-	3,727,774	481,670	10,419	4,285,016
Unreserved:						
Undesignated, Reported in:						
General Fund	2,106,622	-	-	-	-	2,106,622
Special Revenue Funds	-	-	-	-	276,484	276,484
Debt Service Funds	-	174,639	-	-	-	174,639
Capital Projects Funds	-	-	1,279,775	2,194,367	-	3,474,142
<i>Total Fund Balances</i>	<u>2,171,775</u>	<u>174,639</u>	<u>5,007,549</u>	<u>2,676,037</u>	<u>286,903</u>	<u>10,316,903</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,171,775</u>	<u>\$ 174,639</u>	<u>\$ 5,007,549</u>	<u>\$ 2,676,037</u>	<u>\$ 286,903</u>	<u>\$ 10,316,903</u>

See accompanying notes to the financial statements.

FAIRLAWN LOCAL SCHOOL DISTRICT
*Statement of Cash Receipts, Cash Disbursements, and Changes
in Fund Cash Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2009*

	General	Bond Retirement	OSFC	Building	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 1,194,751	\$ 352,612	\$ -	\$ -	\$ -	\$ 1,547,363
Intergovernmental	2,487,259	51,492	7,845,005	-	399,811	10,783,567
Interest	45,101	-	207,266	39,239	945	292,551
Tuition and Fees	875,943	-	-	-	-	875,943
Extracurricular Activities	-	-	-	-	42,560	42,560
Charges for Services	-	-	-	-	111,673	111,673
Miscellaneous	17,231	-	-	-	32,438	49,669
<i>Total Revenues</i>	<u>4,620,285</u>	<u>404,104</u>	<u>8,052,271</u>	<u>39,239</u>	<u>587,427</u>	<u>13,703,326</u>
Expenditures						
Current:						
Instruction:						
Regular	1,740,020	-	-	-	114,452	1,854,472
Special	231,512	-	-	-	153,623	385,135
Adult/Continuing	30,678	-	-	-	-	30,678
Support Services:						
Pupil	224,493	-	-	-	19,292	243,785
Instructional Staff	357,280	-	-	-	5,913	363,193
Board of Education	10,350	-	-	-	-	10,350
Administration	513,685	-	-	-	-	513,685
Fiscal	212,811	8,389	-	-	3,000	224,200
Business	4,634	-	-	-	-	4,634
Operation and Maintenance of Plant	407,059	-	-	-	517	407,576
Pupil Transportation	294,560	-	-	-	4,100	298,660
Operation of Non-Instructional Services	-	-	-	-	204,296	204,296
Extracurricular Activities	105,542	-	-	-	39,733	145,275
Capital Outlay	-	-	11,458,685	877,649	-	12,336,334
Debt Service:						
Principal Retirement	-	125,000	-	-	-	125,000
Interest and Fiscal Charges	-	225,789	-	-	-	225,789
<i>Total Expenditures</i>	<u>4,132,624</u>	<u>359,178</u>	<u>11,458,685</u>	<u>877,649</u>	<u>544,926</u>	<u>17,373,062</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>487,661</u>	<u>44,926</u>	<u>(3,406,414)</u>	<u>(838,410)</u>	<u>42,501</u>	<u>(3,669,736)</u>
Other Financing Sources (Uses)						
Transfers In	-	-	-	3,514,447	117,500	3,631,947
Transfers Out	(117,500)	-	(3,514,447)	-	-	(3,631,947)
<i>Total Other Financing Sources (Uses)</i>	<u>(117,500)</u>	<u>-</u>	<u>(3,514,447)</u>	<u>3,514,447</u>	<u>117,500</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	370,161	44,926	(6,920,861)	2,676,037	160,001	(3,669,736)
<i>Fund Balances Beginning of Year</i>	<u>1,801,614</u>	<u>129,713</u>	<u>11,928,410</u>	<u>-</u>	<u>126,902</u>	<u>13,986,639</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,171,775</u>	<u>\$ 174,639</u>	<u>\$ 5,007,549</u>	<u>\$ 2,676,037</u>	<u>\$ 286,903</u>	<u>\$ 10,316,903</u>

See accompanying notes to the financial statements.

Fairlawn Local School District
Statement of Cash Receipts, Cash Disbursements and Changes
In Fund Cash Balance - Budget (Non-GAAP Basis) and Actual - Cash Basis
General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,070,000	\$ 1,070,000	\$ 1,194,751	\$ 124,751
Intergovernmental	2,435,000	2,435,000	2,487,259	52,259
Interest	45,000	45,000	45,101	101
Tuition and Fees	800,000	800,000	875,943	75,943
Miscellaneous	15,405	15,405	17,231	1,826
<i>Total Revenues</i>	<u>4,365,405</u>	<u>4,365,405</u>	<u>4,620,285</u>	<u>254,880</u>
Expenditures				
Current:				
Instruction:				
Regular	1,907,500	1,907,500	1,783,283	124,217
Special	234,000	234,000	231,512	2,488
Adult/Continuing	32,788	32,788	31,458	1,330
Support Services:				
Pupils	225,000	250,000	224,608	25,392
Instructional Staff	360,000	360,000	357,771	2,229
Board of Education	11,000	11,000	10,875	125
Administration	516,000	516,000	515,094	906
Fiscal	220,000	220,000	218,495	1,505
Business	6,000	6,000	5,634	366
Operation and Maintenance of Plant	415,000	415,000	413,601	1,399
Pupil Transportation	300,000	300,000	299,903	97
Extracurricular Activities	106,000	106,000	105,542	458
<i>Total Expenditures</i>	<u>4,333,288</u>	<u>4,358,288</u>	<u>4,197,776</u>	<u>160,512</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>32,117</u>	<u>7,117</u>	<u>422,509</u>	<u>415,392</u>
Other Financing Sources (Uses)				
Transfers Out	(17,500)	(117,500)	(117,500)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(17,500)</u>	<u>(117,500)</u>	<u>(117,500)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	14,617	(110,383)	305,009	415,392
<i>Fund Balance Beginning of Year</i>	1,801,614	1,801,614	1,801,614	-
Prior Year Encumbrances Appropriated	36,068	36,068	36,068	-
<i>Fund Balance End of Year</i>	<u>\$ 1,852,299</u>	<u>\$ 1,727,299</u>	<u>\$ 2,142,691</u>	<u>\$ 415,392</u>

FAIRALWN LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets- Cash Basis

Fiduciary Funds

For the Fiscal Year Ended June 30, 2009

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 500	\$ 30,852
Net Assets		
Resticted for other purposes	500	30,852
<i>Total Net Assets</i>	<u>\$ 500</u>	<u>\$ 30,852</u>

See accompnaying notes to the financial statements.

Fairlawn Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2009

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Donations	\$ 500
Deductions	
Noninstructional Services	500
<i>Change in Net Assets</i>	-
<i>Net Assets Beginning of Year</i>	500
<i>Net Assets End of Year</i>	\$ 500

See accompanying notes to the financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1953. The School District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The School District is the 550th smallest in the State of Ohio (among 612 school districts) in terms of enrollment. This Board controls the School District's two instructional/support facilities staffed by 37 non-certificated employees, 37 certificated full time teaching personnel and 3 administrative employees to provide services to 592 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Fairlawn Local School District.

The School District is associated with the Western Ohio Computer Organization (WOCO), Shelby County Local Professional Development Committee, Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), and West Central Ohio Special Education Regional Resource Center (SERRC), jointly governed organizations. The School District is also associated with the Ohio Association of School Business Officials Group Rating Plan, SOEPC property and liability insurance pool and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 13 and 14.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The School District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

Governmental: The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The General Fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

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

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

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

Fiduciary Funds: Fiduciary funds account for cash and investments where the School District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program.

Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student activities' cash.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

Government-wide Financial Statements: The statement of net assets and the statement of activities display information about the School District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the School District's general receipts.

Fund Financial Statements: Fund financial statements report more detailed information about the School District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

C. Cash and Cash Equivalents

The School District deposits cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as *equity in pooled cash and cash equivalents* on the financial statements.

The School District values investments and cash equivalents at cost. For presentation on the financial statements, the School District classifies investments of the cash management pool as cash equivalents. Following Ohio statutes, the School District specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2009 were \$45,101 including \$9,471 assigned from other School District funds.

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for textbooks and instructional materials and capital improvements. See Note 11 for additional information regarding these set-asides.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory and Prepaid Items

On the cash basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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

H. Long-term Obligations

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

I. Fund Balance Designations and Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. The School District has reserved fund equity for encumbrances and capital improvements.

J. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. There were no unpaid advances receivable or payable.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Extraordinary and Special Items

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

M. Budgetary Data

Ohio law requires the School District to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the School District may appropriate. The appropriation resolution is the School District's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The School District uses the object level within the General Fund and Fund type for all other funds.

The certificate of estimated resources may be amended during the year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

3. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

4. PROPERTY AND INCOME TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

4. PROPERTY AND INCOME TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2009 represents collections of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien December 31, 2007, were levied after April 1, 2008 and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2009 (other than public utility property) represents the collection of 2009 taxes. Tangible personal property taxes received in calendar year 2009 were levied after April 1, 2008, on the value as of December 31, 2008. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2009 was \$25,007 in the General Fund and \$10,651 in the Bond Retirement Fund.

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second - Half Collections		2009 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$ 30,587,720	86.62%	\$ 31,013,830	87.35%
Public Utility Personal	4,426,510	12.46	4,418,030	12.44
Tangible Personal Property	243,250	.92	73,400	.21
Total	\$ 35,178,480	100.00%	\$ 35,505,260	100.00%
Tax rate per \$1,000 of assessed valuation	\$38.44		\$38.17	

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

4. PROPERTY AND INCOME TAXES (Continued)

The School District levies a voted income tax of .75% for general operations on the income of residents and of estates. The tax was effective on January 1, 1993 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

5. DEPOSITS AND INVESTMENTS

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. The State Treasurer's investment pool (STAR Ohio, a Rule 2-a7-like pool);
7. Certain bankers' acceptances and commercial paper notes;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the purchase date unless matched to a specific School District obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

Undeposited Cash At year-end, the School District had \$100 in undeposited cash on hand, included as part of *Equity in Pooled Cash and Cash Equivalents*.

Deposits At year-end, the carrying amount of the School District's deposits was \$10,348,255 and the bank balance was \$10,320,127. Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2009, \$1,700,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the School District's remaining bank balance of \$8,620,127 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The School District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within five years from the date of investments unless they are matched to a specific obligation or debt of the School District. Purchasing investments that cannot be held until the maturity date is also restricted.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

6. INTERFUND TRANSFERS

Interfund cash transfers for the year ended June 30, 2009 were as follows:

Transfer from	Transfer to	Amount
General Fund	Classroom Maintenance Fund	\$ 17,500
OSFC Building Fund	Building Fund	3,514,447
General Fund	Termination Benefits Fund	<u>100,000</u>
Total		\$ 3,631,947

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

7. RISK MANAGEMENT

A. Commercial Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

Buildings and Contents – replacement cost	\$ 14,800,000
General Liability - Per Occurrence	1,000,000
General Liability –Aggregate	8,000,000
Automobile Liability	1,000,000
Uninsured Motorists	8,000,000

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

B. Workers' Compensation

For fiscal year 2009, the School District participated in the Ohio Association of School Business Officials (OASBO) Compensation Group Rating Program, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The school districts apply for participation each year. The firm of Shakely Uniservice Inc., provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

7. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

The School District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 14) consisting of seven school districts and an educational service center. The School District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Genworth Life for life insurance benefits

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a financial report. This can be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members must contribute 10% of their annual covered salary and the School District must contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$114,486, \$102,948 and \$96,612 respectively; 100% cash obligation has been contributed for fiscal years 2009, 2008, and 2007.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a financial report, obtainable by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

8. DEFINED BENEFIT PENSION 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 these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2009, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2009, 2008, and 2007 were \$262,512, \$275,196, and \$253,936 respectively; 100% of cash obligation has been contributed for fiscal years 2009, 2008, and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were not material.

9. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2009, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$18,751 for fiscal year 2009.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2008, (the latest information available) the balance in the Fund was \$3.7 billion. For the year ended June 30, 2008, net health care costs paid by STRS were \$288,878,000 and STRS had 126,506 eligible benefit recipients.

For SERS, In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation was .66%. Fairlawn Local Schools contributions for the year ended June 30, 2009 were \$5,397, which equaled the required contributions for the year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2009, the health care allocation was 4.18%. The actuarially required contribution (ARC), as of the June 30, 2009 annual valuation, was 13.41% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The School District's contributions for the years ended June 30, 2009, 2008, and 2007 were \$78,699, \$82,558, and \$81,500, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% 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 2009, the minimum compensation level was established at \$35,800.

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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Forms and Publications*.

10. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2009 will not have a material adverse effect on the School District.

B. Litigation

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

11. SET-ASIDE CALCULATIONS

State statute annually requires the School District to set aside in the General Fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Textbooks/ Instructional Materials	Capital Improvements
Balance June 30, 2008	\$(117,182)	\$ (1,526,105)
Current Year Set Aside Requirement	91,328	91,328
Current Year Offsets	-	(877,649)
Qualifying Expenditures	(108,162)	(68,998)
Set Aside Reserve Balance June 30, 2009	\$(134,016)	\$ (2,381,424)

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

The Bus Reserve set aside has a balance of \$21,184 as of June 30, 2009.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

12. LONG TERM LIABILITIES

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

School Improvement	Principal Outstanding 6/30/2008	Additions	Reductions	Principal Outstanding 6/30/2009	Amount Due in One Year
Serial Bonds	\$1,165,000	\$ -	\$ 125,000	\$1,040,000	\$ 130,000
Term Bonds	4,445,000	-	-	4,445,000	-
Capital Accretion Bonds	100,000	-	-	100,000	-
Accretion on Capital Bonds	21,780	21,780	-	43,560	-
Total	<u>\$5,731,780</u>	<u>\$ 21,780</u>	<u>\$ 125,000</u>	<u>\$5,628,560</u>	<u>\$ 130,000</u>

We restated the beginning balance on the Accretion on Capital Bonds due to an error in presenting in the prior audit report. The amount was reported as \$11,223 when the amount should have been reported as \$21,780.

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

Year Ended	General Obligation Term/Serial Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 130,000	\$ 220,689	\$ 350,689	\$ -	\$ -	\$ -
2011	135,000	215,389	350,389	-	-	-
2012	145,000	209,788	354,788	-	-	-
2013	150,000	203,889	353,889	-	-	-
2014	155,000	197,789	352,789	-	-	-
2015-2019	500,000	918,045	1,418,045	\$100,000	\$250,000	\$350,000
2020-2024	980,000	778,444	1,758,444	-	-	-
2025-2029	1,190,000	561,685	1,751,685	-	-	-
2030-2034	1,455,000	291,884	1,746,884	-	-	-
2035-2037	645,000	26,775	671,775	-	-	-
Total	<u>\$5,485,000</u>	<u>\$3,624,377</u>	<u>\$9,109,377</u>	<u>\$100,000</u>	<u>\$250,001</u>	<u>\$350,000</u>

The School District's overall legal debt margin was \$3,195,473 with an energy conservation debt margin of \$319,547 and un-voted debt margin of \$35,505 at June 30, 2009.

Term Bonds

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

Year	Amount
2018	\$175,000

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

12. LONG TERM LIABILITIES (Continued)

Term Bonds (Continued)

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

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

Year	Amount
2020	\$190,000

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

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

Year	Amount
2022	\$205,000

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

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

Year	Amount
2024	\$220,000

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

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

Year	Amount
2026	\$240,000

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

12. LONG TERM LIABILITIES (Continued)

Term Bonds (Continued)

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

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

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

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

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

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

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

The Capital Appreciation Bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$175,000 each year representing interest that accretes over the term of the bonds. The accreted value of the capital appreciation bonds at June 30, 2009 is \$43,560.

13. JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO) - The School District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the School District. The School District paid WOCO \$45,107 for services provided during the fiscal year 2009. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Cooperative – The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 150 school districts in 12 counties. The Montgomery County Educational Service Center acts as the fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Television Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009

(Continued)

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

Shelby County Local Professional Development Committee - The School District is a participant in the Shelby County Local Professional Development Committee (the Committee), which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve-member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

14. PURCHASING POOLS

Workers' Compensation Group Rating Plan - For fiscal year 2009, the School District participated in the Ohio Association of School Business Officials (OASBO) Compensation Group Grating Program, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Shakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Insurance Program - The School District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to 6 times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2009, this program was expanded to include 37 school districts with combined student enrollment of 76,424, and combined values of \$1,961,864,211. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

- Retain a portion of the predictable losses
- Transfer a portion of the catastrophic risk
- Broaden the districts insurance program coverages

The District paid \$24,761 to the group during fiscal year 2009 for Property and Casualty Insurance. Selective Services is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

14. PURCHASING POOLS (Continued)

Shelby County Schools Consortium - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

15. STATE SCHOOL FUNDING DECISION

On December 11, 2002 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed " . . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . . " The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

16. CONTRACTUAL COMMITMENTS

At June 30, 2009 the School District had \$4,683,989 in contractual commitments for the building of a new K-12 school building.

AREA Energy - \$764,381
Central Fire - \$50,713
Slagle Mechanical - \$ 326,290
C&T Design - \$89,288
Cotterman Roofing - \$231,792
Humble Construction - \$667,863
Ferguson Construction - \$2,080,394
Freytag & Associates - \$111,461
Touchstone CPM - \$361,807

Perry & Associates
Certified Public Accountants, A.C.

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

November 19, 2010

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Fairlawn Local School District, Shelby County, Ohio** (the School District), as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 19, 2010 wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2009-001.

We also noted a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated November 19, 2010.

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's responses and, accordingly, we do not express an opinion on them.

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

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

FINDING NUMBER 2009-001

Material Weakness/Noncompliance Citation

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot, be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

Client Response:

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	ORC § 117.38 and OAC § 117-2-03 (B) – not filing annual financial report in accordance with generally accepted accounting principles	No	Not Corrected - repeated as finding 2009-001.

Perry & Associates
Certified Public Accountants, A.C.

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

November 19, 2010

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

To the Board of Education:

Ohio Revised 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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Fairlawn City School District, Shelby County, Ohio, has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 8, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment of the Constitution of the United States;
- (10) A requirement that the School District's administration semiannually provide the president of the School District's Board a written summary of all reported incidents and post the summary on its web site to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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Dave Yost • Auditor of State

FAIRLAWN LOCAL SCHOOL DISTRICT

SHELBY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 25, 2011**