



Dave Yost • Auditor of State



**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Fairland Local School District  
Lawrence County  
228 Private Drive 10010  
Proctorville, Ohio 45669

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 the Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2011, 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairland Local School District, Lawrence County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, 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 integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 27, 2012

**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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The discussion and analysis of the Fairland Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

**Key financial highlights for fiscal year 2011 are as follows:**

- Net assets of governmental activities decreased \$1,063,434. This is mainly due to the depreciation of capital assets.
- General revenues accounted for \$12,183,029 or 73% of all revenues. Program specific revenues in the form of Charges for Services and Sales and Operating Grants and Contributions accounted for \$4,578,192 or 27% of total revenues of \$16,761,221. The School District had \$17,824,655 in expenses related to governmental activities.
- The School District has two major funds; the General Fund and the Bond Retirement Fund. The General Fund had \$12,826,410 in revenues and \$12,793,473 in expenditures. The General Fund's balance increased \$34,979. The Bond Retirement Fund had \$258,415 in revenues and \$302,823 in expenditures. The Bond Retirement Fund's balance decreased \$44,408.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next 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 one column.

***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies.

**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non instructional services, and extracurricular activities.

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

***Fund Financial Statements***

The analysis of the School District's funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Fiduciary Fund*** Fiduciary Fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's only fiduciary fund is an agency fund which is used to maintain financial activity of the School District's student managed activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB Statement No. 34, fiduciary funds are not included in the government-wide statements.



**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2011 compared to 2010.

	Governmental Activities		
	2011	2010	Variance
<b>Assets</b>			
Current and Other Assets	\$11,158,448	\$10,363,201	\$795,247
Capital Assets	29,652,219	31,036,355	(1,384,136)
Total Assets	<u>40,810,667</u>	<u>41,399,556</u>	<u>(588,889)</u>
<b>Liabilities</b>			
Long-term Liabilities	3,644,636	3,473,830	170,806
Other Liabilities	5,020,376	4,716,637	303,739
Total Liabilities	<u>8,665,012</u>	<u>8,190,467</u>	<u>474,545</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	27,192,219	28,416,355	(1,224,136)
Restricted	2,720,570	1,990,971	729,599
Unrestricted	2,232,866	2,801,763	(568,897)
Total Net Assets	<u><u>\$32,145,655</u></u>	<u><u>\$33,209,089</u></u>	<u><u>(\$1,063,434)</u></u>

Total assets decreased \$588,889 due to a decrease in capital assets due to depreciation expense. Total liabilities increased \$474,545 which included a \$170,806 increase in long-term liabilities due largely to an increase in sick leave benefits payable which relates to the School District offering a one-time voluntary retirement incentive, and an increase of \$303,739 to other liabilities, due largely to increases in accrued vacation benefits payable and deferred revenue.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011 compared to 2010. Revenue decreased \$27,359, mostly due to decreases in charges for services and sales, property taxes, grants and entitlements, investment earnings, and miscellaneous.

**Fairland Local School District, Ohio***Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited*Table 2  
Changes in Net Assets

	Governmental Activities		
	2011	2010	Variance
<b>Revenues</b>			
Program Revenues			
Charges for Services and Sales	\$1,288,882	\$1,371,081	(\$82,199)
Operating Grants and Contributions	3,289,310	2,662,408	626,902
Total Program Revenues	4,578,192	4,033,489	544,703
General Revenues			
Property Taxes	3,247,464	3,504,758	(257,294)
Grants and Entitlements	8,865,654	9,154,852	(289,198)
Gifts and Donations	1,000	1,845	(845)
Investment Earnings	28,955	44,630	(15,675)
Proceeds from Sale of Capital Assets	1,255	0	1,255
Insurance Recoveries and Miscellaneous	38,701	49,006	(10,305)
Total General Revenues	12,183,029	12,755,091	(572,062)
Total Revenues	16,761,221	16,788,580	(27,359)
<b>Program Expenses</b>			
Instruction			
Regular	8,178,159	8,488,980	(310,821)
Special	2,256,187	1,902,196	353,991
Vocational	73,393	75,125	(1,732)
Student Intervention Services	20,639	20,328	311
Other	61,893	8,801	53,092
Support Services:			
Pupils	464,858	451,426	13,432
Instructional Staff	812,940	807,453	5,487
Board of Education	157,141	141,093	16,048
Administration	1,342,403	1,209,719	132,684
Fiscal	390,458	394,634	(4,176)
Business	1,269	4,599	(3,330)
Operation and Maintenance of Plant	2,133,641	2,189,987	(56,346)
Pupil Transportation	771,664	724,632	47,032
Central	4,907	7,740	(2,833)
Operation of Non-Instructional Services	710,462	694,154	16,308
Extracurricular Activities	311,352	302,644	8,708
Interest and Fiscal Charges	133,289	141,260	(7,971)
Total Expenses	17,824,655	17,564,771	259,884
Decrease in Net Assets	(\$1,063,434)	(\$776,191)	(\$287,243)
Net Assets at Beginning of Year	33,209,089	33,985,280	(776,191)
Net Assets at End of Year	\$ 32,145,655	\$ 33,209,089	\$ (1,063,434)

**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

The Statement of Activities shows the cost of program services and the charges for services and sales and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3  
 Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program Expenses				
Instruction:				
Regular	\$8,178,159	\$6,771,677	\$8,488,980	\$7,100,524
Special	2,256,187	1,128,589	1,902,196	1,010,230
Vocational	73,393	73,393	75,125	51,347
Student Intervention Services	20,639	4,810	20,328	16,386
Other	61,893	43,837	8,801	8,801
Support Services:				
Pupils	464,858	377,479	451,426	354,782
Instructional Staff	812,940	581,570	807,453	546,169
Board of Education	157,141	157,141	141,093	141,093
Administration	1,342,403	1,235,429	1,209,719	1,208,620
Fiscal	390,458	390,458	394,634	394,634
Business	1,269	515	4,599	4,599
Operation and Maintenance of Plant	2,133,641	1,435,198	2,189,987	1,599,971
Pupil Transportation	771,664	654,101	724,632	685,976
Central	4,907	4,907	7,740	7,740
Operation of Non-Instructional Services:				
Food Service Operations	710,462	30,036	694,154	41,236
Extracurricular Activities	311,352	224,034	302,644	217,914
Interest and Fiscal Charges	133,289	133,289	141,260	141,260
<b>Total</b>	<b>\$17,824,655</b>	<b>\$13,246,463</b>	<b>\$17,564,771</b>	<b>\$13,531,282</b>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 74% of instruction activities are supported through taxes and other general revenues.

**The School District Funds**

The School District's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,363,182 and expenditures of \$16,263,031.

**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

***General Fund Budgeting Highlights***

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2011 the School District amended its General Fund budget as needed to reflect unexpected revenues and expenditures. For the General Fund, budget basis revenue was \$672,611 less than original estimates of \$13,504,162 mainly due to less than expected property taxes, intergovernmental revenue, interest and tuition and fees. Budget basis expenditures were \$1,182,837 less than original estimates of \$13,995,296.

The School District's ending unobligated General Fund balance was \$4,440,010.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2011, the School District had \$29,652,219 invested in land and land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2011 balances compared to 2010.

Table 4  
 Capital Assets  
 (Net of Depreciation)

	<u>Governmental Activities</u>	
	2011	2010
Land and Land Improvements	\$198,591	\$198,591
Buildings and Improvements	28,014,576	29,340,717
Furniture and Equipment	1,195,828	1,286,800
Vehicles	243,224	210,247
Totals	\$29,652,219	\$31,036,355

See note 8 for more information on capital assets.

**Fairland Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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***Debt***

At June 30, 2011, the School District had the following debt outstanding:

Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
General Obligation Ohio School Facilities Commission Bonds	\$2,460,000	\$2,620,000

See Note 13 for information on Debt.

**Economic Factors**

The School District depends on the State School Foundation Program and must maintain its prudent spending habits. The financial situation is stable at the present time; however, the School District is unable to predict what effect the budget problems of the State of Ohio may have on its financial operations.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Loretta Wirzfeld, Fairland Local School District Treasurer, 228 Private Drive 10010, Proctorville, Ohio 45669.

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**Fairland Local School District**  
*Statement of Net Assets*  
*June 30, 2011*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,009,679
Intergovernmental Receivable	699,916
Property Taxes Receivable	3,419,976
Accrued Interest Receivable	534
Materials and Supplies Inventory	28,343
Nondepreciable Capital Assets	198,591
Depreciable Capital Assets, Net	29,453,628
<i>Total Assets</i>	40,810,667
<b>Liabilities</b>	
Accounts Payable	97,731
Accrued Wages and Benefits Payable	1,479,075
Accrued Interest Payable	10,689
Accrued Vacation Benefits Payable	80,106
Deferred Revenue	2,861,898
Intergovernmental Payable	490,877
Long-Term Liabilities:	
Due Within One Year	271,582
Due in More Than One Year	3,373,054
<i>Total Liabilities</i>	8,665,012
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	27,192,219
Restricted For:	
Textbooks and Instructional Materials Set-Asides	277,315
Debt Service	1,221,226
Budget Stabilization	43,460
Other Purposes	1,178,569
Unrestricted	2,232,866
<i>Total Net Assets</i>	\$32,145,655

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$8,178,159	\$561,797	\$844,685	(\$6,771,677)
Special	2,256,187	92,326	1,035,272	(1,128,589)
Vocational	73,393	0	0	(73,393)
Student Intervention Services	20,639	0	15,829	(4,810)
Other	61,893	0	18,056	(43,837)
Support Services:				
Pupils	464,858	0	87,379	(377,479)
Instructional Staff	812,940	19,553	211,817	(581,570)
Board of Education	157,141	0	0	(157,141)
Administration	1,342,403	106,183	791	(1,235,429)
Fiscal	390,458	0	0	(390,458)
Business	1,269	0	754	(515)
Operation and Maintenance of Plant	2,133,641	121,445	576,998	(1,435,198)
Pupil Transportation	771,664	58,048	59,515	(654,101)
Central	4,907	0	0	(4,907)
Operation of Non-Instructional Services	710,462	243,621	436,805	(30,036)
Extracurricular Activities	311,352	85,909	1,409	(224,034)
Interest and Fiscal Charges	133,289	0	0	(133,289)
<i>Totals</i>	<u>\$17,824,655</u>	<u>\$1,288,882</u>	<u>\$3,289,310</u>	<u>(13,246,463)</u>
<b>General Revenues</b>				
Property Taxes Levied for:				
				3,002,747
				193,242
				51,475
				8,865,654
				1,000
				28,955
				1,255
				16,759
				21,942
				<u>12,183,029</u>
				(1,063,434)
				<u>33,209,089</u>
				<u>\$32,145,655</u>

See the accompanying notes to the basic financial statements.



**Fairland Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2011*

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,803,840	\$1,192,204	\$692,860	\$6,688,904
Receivables:				
Property Taxes	3,191,670	174,365	53,941	3,419,976
Accrued Interest	534	0	0	534
Intergovernmental	4,418	0	695,498	699,916
Interfund	36,888	0	0	36,888
Materials and Supplies Inventory	10,030	0	18,313	28,343
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	320,775	0	0	320,775
<b>Total Assets</b>	<b>\$8,368,155</b>	<b>\$1,366,569</b>	<b>\$1,460,612</b>	<b>\$11,195,336</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$96,944	\$0	\$787	\$97,731
Accrued Wages and Benefits Payable	1,241,134	0	237,941	1,479,075
Interfund Payable	0	0	36,888	36,888
Deferred Revenue	2,942,531	160,636	451,418	3,554,585
Intergovernmental Payable	429,079	0	61,798	490,877
<b>Total Liabilities</b>	<b>4,709,688</b>	<b>160,636</b>	<b>788,832</b>	<b>5,659,156</b>
<b>Fund Balances</b>				
Nonspendable:				
Materials and Supplies	10,303	0	0	10,303
Restricted for:				
Capital Projects and Maintenance	0	0	632,337	632,337
Unclaimed Monies	5,505	0	0	5,505
Other Purposes	0	0	5,544	5,544
Set-Asides	277,315	0	0	277,315
Instructional Services	0	0	79,259	79,259
Debt Service	0	1,205,933	0	1,205,933
Extracurricular Activities	0	0	56,369	56,369
Committed to:				
Severance Benefits	248,196	0	0	248,196
Insurance Contingency	209,375	0	0	209,375
Other Purposes	49,341	0	0	49,341
Assigned to:				
Other Purposes	2,991	0	0	2,991
Student and Staff Support	115,017	0	0	115,017
FY 12 Appropriations > Estimated Receipts	1,088,243	0	0	1,088,243
Unassigned	1,652,181	0	(101,729)	1,550,452
<b>Total Fund Balances</b>	<b>3,658,467</b>	<b>1,205,933</b>	<b>671,780</b>	<b>5,536,180</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,368,155</b>	<b>\$1,366,569</b>	<b>\$1,460,612</b>	<b>\$11,195,336</b>

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2011*

<b>Total Governmental Fund Balances</b>		\$5,536,180
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		\$29,652,219
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	290,950	
Interest	56	
Intergovernmental	401,681	692,687
Vacation benefits payable is recognized for earned vacation benefits that are to be used within one year but are not recognized on the balance sheet until due.		(80,106)
Interest payable is accrued for outstanding long-term liabilities, while interest is not reported until due on the balance sheet.		(10,689)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Ohio School Facilities Commission Bonds Payable	(2,460,000)	
Sick Leave Benefits Payable	(824,636)	
Special Termination Benefits Payable	(360,000)	(3,644,636)
<b>Net Assets of Governmental Activities</b>		<b>\$32,145,655</b>

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2011*

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$3,002,737	\$210,214	\$51,985	\$3,264,936
Intergovernmental	8,790,975	48,201	2,899,938	11,739,114
Investment Earnings	28,894	0	5	28,899
Tuition and Fees	842,158	0	0	842,158
Charges for Services	49,928	0	243,621	293,549
Extracurricular Activities	74,539	0	78,636	153,175
Gifts and Donations	15,443	0	3,966	19,409
Miscellaneous	21,736	0	206	21,942
<i>Total Revenues</i>	<u>12,826,410</u>	<u>258,415</u>	<u>3,278,357</u>	<u>16,363,182</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,222,137	0	357,024	6,579,161
Special	1,126,261	0	1,043,158	2,169,419
Vocational	72,700	0	0	72,700
Student Intervention Services	5,889	0	14,750	20,639
Other	59,817	0	16,826	76,643
Support Services:				
Pupils	354,114	0	98,845	452,959
Instructional Staff	587,624	0	234,792	822,416
Board of Education	157,141	0	0	157,141
Administration	1,363,496	0	0	1,363,496
Fiscal	378,833	8,743	1,930	389,506
Business	280	0	989	1,269
Operation and Maintenance of Plant	1,492,506	0	599,249	2,091,755
Pupil Transportation	754,007	0	65,260	819,267
Central	904	0	0	904
Operation of Non-Instructional Services	8,382	0	670,206	678,588
Extracurricular Activities	209,382	0	63,706	273,088
Debt Service:				
Principal Retirement	0	160,000	0	160,000
Interest and Fiscal Charges	0	134,080	0	134,080
<i>Total Expenditures</i>	<u>12,793,473</u>	<u>302,823</u>	<u>3,166,735</u>	<u>16,263,031</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	32,937	(44,408)	111,622	100,151
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	1,255	0	0	1,255
Insurance Recoveries	16,759	0	0	16,759
Transfers In	0	0	15,972	15,972
Transfers Out	(15,972)	0	0	(15,972)
<i>Total Other Financing Sources (Uses)</i>	<u>2,042</u>	<u>0</u>	<u>15,972</u>	<u>18,014</u>
<i>Net Change in Fund Balances</i>	34,979	(44,408)	127,594	118,165
<i>Beginning Fund Balances, January 1 (Restated-See Note 19)</i>	<u>3,623,488</u>	<u>1,250,341</u>	<u>544,186</u>	<u>5,418,015</u>
<i>Ending Fund Balances, December 31</i>	<u>\$3,658,467</u>	<u>\$1,205,933</u>	<u>\$671,780</u>	<u>\$5,536,180</u>

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2011*

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**Net Change in Fund Balances - Total Governmental Funds** \$118,165

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital Asset Additions	131,920	
Depreciation Expense	(1,516,056)	
	(1,384,136)	(1,384,136)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due:

Accrued Interest Payable		791
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Delinquent Taxes	(17,472)	
Interest	56	
Intergovernmental	397,441	
	380,025	380,025

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 160,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	(7,473)	
Sick Leave Benefits Payable	29,194	
Special Termination Benefits Payable	(360,000)	
	(338,279)	(338,279)

**Change in Net Assets of Governmental Activities** (\$1,063,434)

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Statement of Revenues, Expenditures and Changes in  
Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property and Other Local Taxes	\$3,229,430	\$3,229,430	\$3,202,664	(\$26,766)
Intergovernmental	9,349,732	8,745,570	8,786,852	41,282
Interest	50,000	50,000	29,717	(20,283)
Tuition and Fees	864,500	864,500	803,045	(61,455)
Gifts and Donations	0	0	1,000	1,000
Miscellaneous	10,500	10,500	8,273	(2,227)
<i>Total Revenues</i>	<u>13,504,162</u>	<u>12,900,000</u>	<u>12,831,551</u>	<u>(68,449)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,791,595	7,791,595	6,265,058	1,526,537
Special	994,024	994,024	1,126,023	(131,999)
Vocational	74,712	74,712	74,093	619
Other	27,383	27,383	61,201	(33,818)
Support Services:				
Pupils	344,167	344,167	348,970	(4,803)
Instructional Staff	542,745	542,745	593,990	(51,245)
Board of Education	162,727	162,727	174,358	(11,631)
Administration	1,201,030	1,201,030	1,289,147	(88,117)
Fiscal	405,077	405,077	383,439	21,638
Business	1,225	1,225	280	945
Operation and Maintenance of Plant	1,463,899	1,463,899	1,513,300	(49,401)
Pupil Transportation	800,642	800,642	778,976	21,666
Central	0	0	1,996	(1,996)
Operation of Non-Instructional Services:				
Food Service Operations	979	979	1,491	(512)
Extracurricular Activities	184,053	184,053	200,137	(16,084)
Capital Outlay:				
Site Improvement Services	1,038	1,038	0	1,038
<i>Total Expenditures</i>	<u>13,995,296</u>	<u>13,995,296</u>	<u>12,812,459</u>	<u>1,182,837</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(491,134)	(1,095,296)	19,092	1,114,388
<b>Other Financing Sources (Uses)</b>				
Insurance Proceeds	0	0	16,758	16,758
Refund of Prior Year Expenditures	0	0	13,463	13,463
Refund of Prior Year Receipts	0	0	(100)	(100)
Sale of Assets	0	0	1,255	1,255
Transfers Out	(125,000)	(125,000)	(32,877)	92,123
Advances Out	0	0	(36,888)	(36,888)
<i>Total Other Financing Sources (Uses)</i>	<u>(125,000)</u>	<u>(125,000)</u>	<u>(38,389)</u>	<u>86,611</u>
<i>Net Change in Fund Balances</i>	(616,134)	(1,220,296)	(19,297)	1,200,999
<i>Beginning Fund Balances, January 1 (Restated-See Note 19)</i>	4,339,011	4,339,011	4,339,011	0
<i>Prior Year Encumbrances Appropriated (Restated)</i>	<u>120,296</u>	<u>120,296</u>	<u>120,296</u>	<u>0</u>
<i>Ending Fund Balances, December 31</i>	<u>\$3,843,173</u>	<u>\$3,239,011</u>	<u>\$4,440,010</u>	<u>\$1,200,999</u>

See the accompanying notes to the basic financial statements.

**Fairland Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2011*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$38,820</u>
<b>Liabilities</b>	
Due to Students	<u>\$38,820</u>

See the accompanying notes to the basic financial statements.

## **Fairland Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 1 - Description of the School District and Reporting Entity**

Fairland Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected, five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 59 classified employees, 109 certificated full time teaching personnel and 11 administrators who provide services to 1,875 students.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government 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 organization's 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 for the organization. The School District has no component units.

The School District is associated with four organizations, one of which is defined as a jointly governed organization and three as insurance purchasing pools. The jointly governed organization is the South Central Ohio Computer Association, and the insurance purchasing pools are the Ohio School Plan, The Lawrence County Schools' Insurance Purchasing Consortium, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 15 and 16 to the basic financial statements.

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

# Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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## **Note 2 - Summary of Significant Accounting Policies (Continued)**

### **A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund 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. These statements include the financial activities of the primary government, except for the fiduciary funds. The statements ordinarily distinguish between activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type (primarily supported by fees and charges). The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

### **B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds for this School District: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:



## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Bond Retirement Fund** The Bond Retirement Fund accounts for tax revenues collected to repay outstanding general obligation bonds.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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

#### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

#### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition and fees, and certain grants.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2011, investments were limited to overnight repurchase agreements and certificates of deposit. These nonparticipating investment contracts and certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$28,894 which includes \$10,884 assigned from other School District funds.

The School District has set-aside cash balances for carryover to fiscal year 2011 for budget stabilization and for textbooks and instructional materials. These monies are presented as "Restricted Assets: Equity in Pooled Cash and Cash Equivalents" on the Balance Sheet.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Investments with an initial maturity of more than three months not purchased from the pool are reported as investments. The certificates of deposit are presented on the financial statements as cash equivalents.

#### ***F. Inventory***

Inventory is presented at cost on a first-in, first-out basis and is expensed/expensed when used. Inventory consists of administrative supplies, custodial supplies and donated and purchased food held for consumption.

#### ***G. Restricted Assets***

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside by the School District for textbooks and budget stabilization balances.

# Fairland Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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## Note 2 - Summary of Significant Accounting Policies (Continued)

### H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	8 years

### I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. A liability is recorded for vacation eligible employees after one year of service with the School District. The liability for vacation benefits is recorded as "accrued vacation benefits payable".

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees after fifteen years of current service with the School District. The entire sick leave benefit liability is reported on the government-wide financial statements.

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***J. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and long-term loans are recognized as an expenditure and liability on the governmental fund financial statements when due.

#### ***K. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

#### ***L. Interfund Balances***

Interfund receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

#### ***M. Fund Balance***

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

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

***Restricted:*** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

**Unassigned:** The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

#### ***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations and federal and state grants restricted to expenditure for specified purposes. The government wide statement of net assets reports \$2,720,570 of restricted net assets, none of which has resulted from enabling legislation.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### ***O. 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 that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***P. Estimates***

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

#### ***Q. Budgetary Process***

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board of Education's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board of Education. The legal level of control has been established by the Board of Education at the fund level. The School District Treasurer has been given the authority to allocate appropriations among functions and objects within all funds.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

### **Note 3 – Accountability**

The following funds had deficit fund balances at June 30, 2011:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Food Service	\$ 44,268
Uniform School Supplies	493
Special Education - Grants to States	42,180
Title I Grants to Local Educational Agencies	15,281

The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 4 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Budget Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, commitment, or assignment of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

#### Net Change in Fund Balance

GAAP Basis	\$34,979
Revenue Accruals	196,626
Expenditure Accruals	(181,819)
Encumbrances	(97,639)
(Excess) Deficit of Funds Combined with General Fund for Reporting Purposes	<u>28,556</u>
Budget Basis	<u>(\$19,297)</u>

As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the Uniform School Supplies, Public School Support, Unclaimed Monies, Insurance Contingency, and Termination Benefits Funds.

### **Note 5 - Deposits and Investments**

State statutes classify monies held by the School District into three categories.

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



## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 5 - Deposits and Investments (Continued)**

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits: 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. At fiscal year end, \$1,131,753 of the School District's bank balance of \$1,381,753 was exposed to custodial credit risk because it was uninsured and uncollateralized.

## Fairland Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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### **Note 5 - Deposits and Investments (Continued)**

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

**Investments:** The School District's investments are reported at fair value. As of June 30, 2011, the School District had the following investment:

	Fair Value	Maturity
Repurchase Agreements	\$5,916,527	1 day

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the settlement date and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is that securities must be marked to market daily. To date, no investments have been purchased with a life greater than one day.

**Custodial Credit Risk** For an investment, custodial credit risk is risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the School District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District.

**Concentration of Credit Risk** The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School District at June 30, 2011:

Investment Type	Fair Value	% of Total
Repurchase Agreements	\$5,916,527	100%

### **Note 6 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis, while the School District's 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.

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 revenues received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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.

# Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

## **Note 6 - Property Taxes (Continued)**

Public utility property tax revenues received in calendar year 2011 represent collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Fairland Local School District. The School District receives property taxes from Lawrence County and Gallia 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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2011, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2011, \$267,128 is recognized as revenue: \$249,195 in the General Fund, \$13,729 in the Bond Retirement Fund and \$4,204 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2010 was \$449,123 in the General Fund, \$53,446 in the Bond Retirement Fund and \$8,089 in the Classroom Facilities Special Revenue Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been deferred.

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$164,131,940	96%	\$180,901,860	96%
Public Utility Personal	6,227,880	4%	6,500,120	4%
Tangible Personal Property	203,540	0%	96,670	0%
Total	<u>\$170,563,360</u>	<u>100%</u>	<u>\$187,498,650</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$22.88		\$21.60	

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

### **Note 7 - Receivables**

Receivables at June 30, 2011, consisted of accrued interest, property taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
General Fund	\$4,418
Special Revenue Funds:	
National School Lunch Program	27,820
School Breakfast Program	9,068
Education Jobs Fund	500,108
Special Education - Grants to States	15,820
Title I Grants to Local Educational Agencies	125,162
Improving Teacher Quality State Grants	17,520
Total Special Revenue Funds	695,498
Total Intergovernmental Receivables	\$699,916

### **Note 8 - Capital Assets**

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

	Balance 6/30/2010	Additions	Deductions	Balance 6/30/2011
Capital Assets:				
Capital Assets not being depreciated:				
Land and Land Improvements	\$198,591	\$0	\$0	\$198,591
Total Capital Assets not being Depreciated	198,591	0	0	198,591
Depreciable Capital Assets:				
Buildings and Improvements	42,981,695	0	0	42,981,695
Furniture and Equipment	2,502,467	35,870	0	2,538,337
Vehicles	1,204,648	96,050	(22,032)	1,278,666
Total Capital Assets being Depreciated	46,688,810	131,920	(22,032)	46,798,698
Less Accumulated Depreciation				
Buildings and Improvements	(13,640,978)	(1,326,141)	0	(14,967,119)
Furniture and Equipment	(1,215,667)	(126,842)	0	(1,342,509)
Vehicles	(994,401)	(63,073)	22,032	(1,035,442)
Total Accumulated Depreciation	(15,851,046)	(1,516,056) *	22,032	(17,345,070)
Total Capital Assets being Depreciated, Net	30,837,764	(1,384,136)	0	29,453,628
Capital Assets, Net	\$31,036,355	(\$1,384,136)	\$0	\$29,652,219

## Fairland Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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### **Note 8 - Capital Assets (Continued)**

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,341,882
Support Services:	
Instructional Staff	6,695
Operation of Plant	55,173
Pupil Transportation	52,331
Central	4,003
Food Service Operations	17,708
Extracurricular Activities	38,264
Total Depreciation Expense	<u>\$1,516,056</u>

The School District's capital assets report above includes \$4,274,779 in fully depreciated assets that are still being utilized by the School District.

### **Note 9 - Risk Management**

#### **A. Property and Liability**

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 2011, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool for property, fleet, and liability insurance. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (see Note 16).

The type and amount of coverage provided follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$52,684,205
Automobile Liability:	
Liability	2,000,000
Medical Payments	5,000
Uninsured Motorists	1,000,000

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$2,000,000
Aggregate Limit	4,000,000
Products – Completed Operations Aggregate Limit	2,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000

## Fairland Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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### **Note 9 - Risk Management (Continued)**

Employers Liability – Stop Gap:	
Bodily Injury By Accident – Each Accident	2,000,000
Bodily Injury By Disease	2,000,000
Bodily Injury By Disease – Each Employee	2,000,000
Employee Benefits Liability:	
Employee Benefits Injury – Each Offense Limit	2,000,000
Employee Benefits Injury Aggregate Limit	4,000,000
Educational Legal Liability:	
Each Occurrence	2,000,000
Aggregate Limit	4,000,000

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

For fiscal year 2011, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement provides administrative, cost control, and actuarial services to the GRP.

### **Note 10 - Employee Benefits**

#### **A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year, earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers, administrators, and classified employees who are contracted to work less than 260 days per year do not earn vacation time.

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 307 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 65 days.

Classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 295 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 57 days.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 10 - Employee Benefits (Continued)**

#### ***B. Life Insurance and Health Care Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to all employees through The Guardian Life Insurance Company of America. The coverage amount is \$40,000 for certified employees and \$30,000 for classified employees.

Dental coverage is provided through The Guardian Life Insurance Company of America. Premiums for this coverage are \$74.57 monthly for family and \$22.11 monthly for single coverage. Employees contribute \$4 for family coverage and \$2 for single coverage.

Health insurance is provided by Anthem Blue Cross Blue Shield. Premiums for this coverage are \$1,581 for family coverage and \$640 for single coverage. The School District pays 85% of the premium for certified employees and classified employees who are not members of the non-teaching bargaining unit. The School District pays 83% of the premium for classified employees who are members of the non-teaching bargaining unit.

Vision insurance is provided through The Guardian Life Insurance Company of America. The School District pays 100% of the \$9.73 monthly premium for each employee. Employees may contribute \$11.19 per month to purchase family coverage if they so desire.

#### ***C. Retirement Incentive***

The School District offered a one-time voluntary retirement incentive. The incentive was offered to teachers and administrators who were eligible and did retire through the State Teachers Retirement System on or before July 31, 2011 and to those with 29 years experience as of June 30, 2011 who will be eligible and who do retire through the State Teachers Retirement System by June 30, 2012. The benefit for those who retired under this incentive was \$40,000 plus their regular severance paid in equal monthly installments over five years. Nine teachers and the School District Superintendent took advantage of the incentive and retired on or before July 31, 2011. One teacher with 29 years experience elected to take advantage of the incentive and will retire on or before June 30, 2012.

### **Note 11 - Defined Benefit Pension Plans**

#### ***A. School Employees Retirement System***

Plan Description - The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 11 - Defined Benefit Pension Plans (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust fund, Death Benefit fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B funds. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$214,901, \$376,878, and \$171,926 respectively; 78.48 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

#### ***B. State Teachers Retirement System***

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

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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



## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 11 - Defined Benefit Pension Plans (Continued)**

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$899,798, \$852,654 and \$883,351 respectively; 83.62 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$31,749 made by the School District and \$22,678 made by the plan members.

#### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2011, there are no Board members who have elected Social Security.

### **Note 12 - Postemployment Benefits**

#### ***A. School Employee Retirement System***

Plan Description – The School District participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800. For fiscal year 2011, the School District amount was \$26,952 for surcharge.

**Fairland Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

**Note 12 - Postemployment Benefits (Continued)**

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$57,062, \$1,740 and \$107,376 respectively; 42.95 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$14,064, \$20,271 and \$15,168 respectively; 78.84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to Post Employment Health Care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$69,215, \$65,589 and \$67,950 respectively; 83.62 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**Note 13 - Long Term Obligations**

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

	Outstanding 6/30/10	Additions	Reductions	Outstanding 06/30/11	Due in One Year
<b>Governmental Activities</b>					
OSFC Bonds, 1999 5.02%	\$2,620,000	\$0	\$160,000	\$2,460,000	\$170,000
Sick Leave Benefits	853,830	50,506	79,700	824,636	19,174
Special Termination Benefits Payable	0	360,000	0	360,000	82,408
Total Governmental Activities					
Long-Term Liabilities	<u>\$3,473,830</u>	<u>\$410,506</u>	<u>\$239,700</u>	<u>\$3,644,636</u>	<u>\$271,582</u>

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 13 - Long Term Obligations (Continued)**

On June 8, 1999 the School District issued \$4,005,000 in voted general obligation bonds for the purpose of constructing a new high school and additions and renovations to the three existing instructional buildings. The bonds were issued for a 23 year period with a final maturity at December 1, 2021. The School Improvement General Obligation Bonds will be paid from the Bond Retirement Fund.

Sick leave benefits will be paid from the General Fund.

Annual requirement to school improvement general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$170,000	\$125,300	295,300
2013	180,000	114,800	294,800
2014	190,000	103,700	293,700
2015	200,000	92,000	292,000
2016	210,000	80,750	290,750
2017-2021	1,225,000	230,375	1,455,375
2022	285,000	7,125	292,125
Total	<u>\$2,460,000</u>	<u>\$754,050</u>	<u>\$3,214,050</u>

The overall debt margin of the School District as of June 30, 2011 was \$15,620,812 with an unvoted debt margin of \$187,499.

The School District has a commercial guarantee relating to its automated clearing house credits agreement which is used by the school district for processing payroll direct deposit transactions.

### **Note 14 – Interfund Activity and Balances**

During fiscal year 2011, the General Fund made transfers to the Uniform School Supplies Fund in the amount of \$16,905, to the Food Service Fund in the amount of \$3,672 and to the Education Management Information System Fund in the amount of \$9,500 to cover deficit balances in those funds. Also during fiscal year 2011, the General Fund transferred \$2,800 to the Choose to Read Ohio Project Fund as Board of Education Matching Funds to the Grant. The General Fund also made an advance in the amount of \$36,888 to the Food Service Fund which will be repaid during fiscal year 2012 and is recorded as an interfund payable from Other Governmental Funds to the General Fund as an interfund receivable on the Balance Sheet.

### **Note 15 - Jointly Governed Organizations**

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 15 - Jointly Governed Organizations (Continued)**

Fairland Local School District paid \$118,137 for services provided during fiscal year 2011. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

### **Note 16 - Insurance Purchasing Pools**

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

### **Note 17 - Contingencies**

#### ***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

#### ***B. Litigation***

The School District is party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 18 - Set-Aside Calculations and Fund Balance Restrictions**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish set-aside balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget stabilization set-aside. During fiscal year 2004, the Board of Education approved maintaining the budget stabilization funds in the budget stabilization set-aside pursuant to State Statute and at June 30, 2011, this continues to be set aside.

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

	<u>Budget Stabilization</u>	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2010	\$43,460	\$69,569	\$0
Current Year Set-Aside Requirement	0	369,103	369,103
Current Year Offsets	0	0	(305,555)
Qualifying Disbursements	0	(161,357)	(95,888)
Totals	<u>\$43,460</u>	<u>\$277,315</u>	<u>(\$32,340)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$43,460</u>	<u>\$277,315</u>	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2011	<u>\$43,460</u>	<u>\$277,315</u>	<u>\$0</u>

## Fairland Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 19 – Changes in Accounting Principles and Restatement of Beginning Fund Balances**

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, which the School District has implemented for the fiscal year ended June 30, 2011. This pronouncement does not affect the calculation of the School District’s fund balances but does shift the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in funds can be spent (see Note 2).

As a result of the implementation of GASB Statement No. 54, certain funds previously reported as Special Revenue Funds were reclassified to the General Fund. These reclassifications had the following effect on beginning fund balances:

	General Fund	Other Governmental Funds
Fund Balance June 30, 2010	\$3,498,805	\$668,869
Fund Reclassifications:		
Uniform School Supplies Fund	1	(1)
Public School Support Fund	124,682	(124,682)
Restated Fund Balance July 1, 2010	\$3,623,488	\$544,186

These reclassifications had no effect on government-wide net assets.

For fiscal year ended June 30, 2010, the General Fund Budget Basis presentation included funds that are legally budgeted in separate special revenue funds and are considered part of the General Fund on a GAAP basis. For Fiscal Year ended June 30, 2011, the General Fund Budget Basis presentation does not include these funds. As a result, the June 30, 2010 General Fund Budget Basis Fund Balance of \$4,812,242 was restated to \$4,339,011, a decrease of \$473,231.

### **Note 20 – Subsequent Events**

On September 12, 2011 the Board of Education approved the purchase of two buses for special education transportation from Edwin Davis and Son for the total amount of \$191,860.

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	Grant Year	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2010/2011	10.555	\$ 17,334	\$ 17,334
Cash Assistance:				
School Breakfast Program	2010/2011	10.553	74,551	74,551
National School Lunch Program	2010/2011	10.555	250,785	250,785
Cash Assistance Subtotal			<u>325,336</u>	<u>325,336</u>
Total Child Nutrition Cluster			<u>342,670</u>	<u>342,670</u>
Total U.S. Department of Agriculture			342,670	342,670
<b><u>U.S. INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u></b>				
<i>Passed Through State Library of Ohio:</i>				
Grants to States	2011	45.310	<u>8,399</u>	<u>8,399</u>
Total U.S. Institute of Museum and Library Services			8,399	8,399
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Cluster:				
Title I Grants to Local Educational Agencies	2010	84.010	82,411	99,129
	2011		<u>473,323</u>	<u>473,323</u>
Total Title I Grants to Local Educational Agencies			555,734	572,452
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	(9,561)	10,108
	2011		<u>206,771</u>	<u>204,907</u>
Total ARRA - Title I Grants to Local Educational Agencies			<u>197,210</u>	<u>215,015</u>
Total Title I Cluster			752,944	787,467
Special Education Cluster:				
Special Education - Grants to States	2011	84.027	365,178	365,178
ARRA - Special Education - Grants to States	2010	84.391	42,100	44,044
	2011		<u>162,309</u>	<u>162,100</u>
Total ARRA - Special Education - Grants to States			<u>204,409</u>	<u>206,144</u>
Total Special Education Cluster			569,587	571,322
Education Technology State Grants	2010	84.318	(100)	905
	2011		<u>1,050</u>	<u>1,050</u>
Total Education Technology State Grants			950	1,955
Improving Teacher Quality State Grants	2010	84.367	13,456	16,874
	2011		<u>75,622</u>	<u>75,302</u>
Total Improving Teacher Quality State Grants			89,078	92,176
ARRA - State Fiscal Stabilization Fund - Education State Grants	2011	84.394	691,939	691,939
ARRA - Race to the Top	2011	84.395	<u>33,885</u>	<u>33,190</u>
Total U.S. Department of Education			<u>2,138,383</u>	<u>2,178,049</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 2,489,452</u></b>	<b><u>\$ 2,529,118</u></b>

*The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of the Schedule.*

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at the fair value of the commodities received less the cost associated with purchasing commodities. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE D - TRANSFER BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. This transfer resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2010 to 2011:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2010 to 2011</u>
ARRA - Title I Grants to Local Educational Agencies	84.389	\$ 9,561
Education Technology State Grants	84.318	100

**NOTE E – MATCHING REQUIREMENTS**

Certain Federal programs require the School District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.





# Dave Yost • Auditor of State

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

Fairland Local School District  
Lawrence County  
228 Private Drive 10010  
Proctorville, Ohio 45669

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 27, 2012, wherein we noted the School District has adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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.

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

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

### **Compliance and Other Matters**

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

We did note a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 27, 2012.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the School District. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

February 27, 2012



# Dave Yost • Auditor of State

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

Fairland Local School District  
Lawrence County  
228 Private Drive 10010  
Proctorville, Ohio 45669

To the Board of Education:

### Compliance

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

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

As described in Finding 2011-01 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding eligibility applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion for the School District to comply with requirements applicable to this program.

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

### Internal Control Over Compliance

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2011-01 to be a material weakness.

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 27, 2012.

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



**Dave Yost**  
Auditor of State

February 27, 2012

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified – Child Nutrition Cluster  Unqualified – Title I Cluster; Special Education Cluster; ARRA – State Fiscal Stabilization Fund – Education State Grants
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster: CFDA #10.553 and #10.555  Title I Cluster: CFDA #84.010 and #84.389  Special Education Cluster: CFDA #84.027 and #84.391  ARRA – State Fiscal Stabilization Fund – Education State Grants: CFDA #84.394
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2011-01
<b>CFDA Title and Number</b>	Child Nutrition Cluster: CFDA #10.553 and #10.555
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Finding/Material Weakness**

**Eligibility**

**7 C.F.R. Section 245.6** addresses the application, eligibility and certification of children for free and reduced price meals and free milk. This section states that a child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS web site (<http://www.fns.usda.gov/cnd/>) under "Income Eligibility Guidelines." Specifically for School Nutrition Programs, children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price.

Annual eligibility determinations may also be based on the child's household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP) (formerly the Food Stamp Program), Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 U.S.C. Section 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 U.S.C. Section 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs. Pursuant to 7 CFR Section 245.6(b), certain runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts. Federal guidelines also require the verification of free and reduced applications using standard or alternative sample sizes.

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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<b>Finding Number</b>	2011-01 (Continued)
<b>CFDA Title and Number</b>	Child Nutrition Cluster: CFDA #10.553 and #10.555
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Finding/Material Weakness (Continued)**

**Eligibility (Continued)**

The School District had 765 students recorded in their system as either free or reduced students for fiscal year 2011. Of those 765 students, 175 represented High School students, of which 108 students were identified free status as a result of being directly certified through State and local agencies administering benefits program and 67 students were determined eligible based on approved annual free or reduced lunch applications. As stated above, approved applications and/or direct certifications should be maintained by the School District to support all students with a free or reduced status. However, the School District was not able to locate the annual free or reduced lunch applications to support the 67 students included in the system for the High School. The applications for all the other buildings were provided. Furthermore, the High School could not provide support for their verifications performed of free and reduced applications.

As a result, alternative measures had to be taken to confirm the reasonableness of the number of students reported as free or reduced at the High School. The School District directly certified 108 students; therefore, we compared the direct certification listing to the students listed in the system as free and reduced. We were able to confirm that 108 students from the system were included on the direct certification listing. Then, we scanned the approved applications on file for the other three buildings within the School District and we were able to identify 24 High School students that were listed in the applications of their siblings. As a result, we were able to confirm 132 of the 175 High School students had a valid free or reduced lunch status. We then compared the 132 confirmed free or reduced lunch students to the average number of reimbursed student meals each month during the school year. We noted that the number of meals for which reimbursement was requested ranged from a minimum of 65 to a maximum of 80, which was significantly less than the number of students we were able to confirm as having free or reduced status. Lastly, we compared the number of students with free or reduced status at the High School for fiscal years 2010, 2011, and 2012 to ensure the reasonableness of the counts from year to year. This comparison showed minimal variance from year to year and provided additional assurance that the number of students in the system for fiscal year 2011 was reasonable.

Also, despite the lack of free and reduced lunch applications available at the High School, the School District selected and verified the required number of free and reduced lunch applications for the School District as a whole. The required sample was achieved by verifications performed for students in buildings other than the High School.

**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2011-01 (Continued)
<b>CFDA Title and Number</b>	Child Nutrition Cluster: CFDA #10.553 and #10.555
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Finding/Material Weakness (Continued)**

**Eligibility (Continued)**

As a result of assurances over the reasonableness of Child Nutrition Cluster reimbursements obtained from the alternative procedures described above, we are not issuing a questioned cost.

The School District uses the number of children eligible for free and reduced price lunches to determine which school attendance areas are eligible to participate in the Title I Part A program. Because the low income student numbers for the Fiscal Year 2011 Title I Part A program were based on FY 2010 numbers of children eligible for free and reduced price lunches for which we did not identify a lack of free and reduced lunch applications, this condition is not being listed as a material citation or material weakness to the Title I Part A program. Further, per review of the Fiscal Year 2011 Consolidated and ARRA Comprehensive Continuous Improvement Plan (CCIP) applications, the Fairland High School was not indicated as eligible for Title I Part A or ARRA services.

However, we recommend the School District ensure applications or other support (i.e. direct certifications) are on file and maintained to support those students whom they are reporting as free or reduced status in order to receive reimbursement for their meals served as part of the Child Nutrition Cluster Program.

**Officials' Response:**

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



**FAIRLAND LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 § .315(c)  
JUNE 30, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-01	All free and reduced applications and/or direct certifications will be maintained by the School District to support all students reported with a free or reduced status.	FY 2012	Roni Hayes, Federal Grants Coordinator Loretta Wirzfeld, Treasurer

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedures

Fairland Local School District  
Lawrence County  
228 Private Drive 10010  
Proctorville, Ohio 45669

To the Board of Education:

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

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying by the required date. A revised anti-harassment policy was approved by the Board at its meeting on August 8, 2011 which included the required dating violence language.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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.

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

**Dave Yost**  
Auditor of State

February 27, 2012



# Dave Yost • Auditor of State

**FAIRLAND LOCAL SCHOOL DISTRICT**

**LAWRENCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2012**