



Dave Yost • Auditor of State

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

TABLE OF CONTENTS

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

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of Lancaster-Fairfield Community School, Fairfield County, Ohio (the School), a component unit of Lancaster City School District as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the School'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 financial position of Lancaster-Fairfield Community School, Fairfield County, Ohio, as of June 30, 2012, and the respective changes in financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

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

Dave Yost
Auditor of State

October 1, 2012

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The discussion and analysis of the Lancaster-Fairfield Community School's (LFCS) financial performance provides an overall review of the LFCS's financial activities for the fiscal year ended June 30, 2012. Readers should also review the basic financial statements and notes to enhance their understanding of the LFCS's financial performance.

Highlights

LFCS completed its eighth year of operation during fiscal year 2012 as a seventh through twelfth grade Community school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year but averaged 42 students.

Key highlights for fiscal year 2012 are as follows:

- Net assets decreased \$34,476.
- LFCS had an operating loss of \$52,638 in fiscal year 2012 compared to an operating loss of \$26,592 in fiscal year 2011.
- Total assets decreased \$47,013 or 46 percent, due mainly to a decrease in cash and cash equivalents and intergovernmental receivables in the amount of \$21,837 and \$26,199, respectively.
- Total liabilities decreased \$12,537 due to a decrease in tuition reimbursements owed to employees and a decrease in fees owed to the Fairfield County Juvenile Court for contract services for a teacher as of June 30, 2011 that were not owed as of June 30, 2012.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LFCS did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

LFCS uses enterprise presentation for all of its activities.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Table 1 provides a summary of LFCS's net assets for 2012 compared to 2011.

Table 1
Net Assets

	2012	2011	Change
<u>Assets:</u>			
Current and Other Assets	\$54,548	\$100,945	(\$46,397)
Capital Assets	617	1,233	(616)
Total Assets	55,165	102,178	(47,013)
<u>Liabilities:</u>			
Current Liabilities	0	12,537	(12,537)
<u>Net Assets:</u>			
Invested in Capital Assets	617	1,233	(616)
Unrestricted	54,548	88,408	(33,860)
Total Net Assets	\$55,165	\$89,641	(\$34,476)

Total assets decreased \$47,013. Intergovernmental receivables decreased in the amount of \$26,199 due primarily to decreases in the areas of the Education Jobs grant in the amount of \$8,076, decreases in the Title I grant in the amount of \$13,518, and decreases in the American Recovery and Reinvestment Act (ARRA) funding in the amount of \$5,007. Cash and cash equivalents decreased in the amount of \$21,837. Liabilities decreased \$12,537. The decrease in current liabilities was due mainly to the LFCS paying fiscal year 2011 contract service payments to the Fairfield County Juvenile Court and contracted teacher tuition reimbursements during fiscal year 2012. This overlap in payments did not reoccur at the end of fiscal year 2012.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Table 2 reflects the changes in net assets for fiscal year 2012, and comparisons to fiscal year 2011.

Table 2
Change in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$294,970	\$262,868	\$32,102
<u>Non-Operating Revenues:</u>			
State and Federal Grants	18,106	49,307	(31,201)
Interest Revenue	56	83	(27)
Total Revenues	<u>313,132</u>	<u>312,258</u>	<u>874</u>
<u>Operating Expenses:</u>			
Purchased Services	345,621	288,843	56,778
Materials and Supplies	1,336	0	1,336
Depreciation	616	617	(1)
Other	35	0	35
Total Expenses	<u>347,608</u>	<u>289,460</u>	<u>58,148</u>
Total Increase (Decrease) in Net Assets	<u>(\$34,476)</u>	<u>\$22,798</u>	<u>(\$57,274)</u>

Foundation revenues increased due to an increase in student averages in fiscal year 2012 compared to fiscal year 2011. The decrease in state and federal grants was due to the LFCS receiving less in grant funding from the Ohio Department of Education for fiscal year 2012 in the areas of Title I, Title II-A, Special Education IDEA B, and ARRA. Also, fiscal year 2011 was the final year for the Educational Stabilization funding. During fiscal year 2011, LFCS had received \$22,330 in Educational Stabilization funding. Educational Stabilization revenue was a part of the ARRA which was enacted by Congress in February 2010. One provision provided two years of additional aid to local school districts to prevent layoffs and cutbacks, with flexibility to use the funds for school modernization and repair. Due to a decrease in cash and cash equivalents over the prior year, the LFCS realized a decrease in interest revenues. The primary purchased services expenses represent costs for staffing services with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center. Purchased service expenses increased in fiscal year 2012 due mainly to an increase in contract payments to the Metropolitan Educational Council and the Fairfield County Juvenile Court. Based upon an agreement between LFCS and the Fairfield County Juvenile Court, the Fairfield County Juvenile Court receives 70 percent of the foundation revenues for services provided to operate the LFCS. During fiscal year 2012, LFCS received additional funding due to prior year underpayments from the Ohio Department of Education in the amount of \$2,411. This amount was included in the foundation revenues. The Ohio Department of Education funding review of fiscal year 2012 has not been completed at this time.

Budgeting

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

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED*

Capital Assets and Debt Administration

Capital Assets

LFCS had no capital asset purchases or deletions during fiscal year 2012. LFCS's computer inventory capitalized value totaled \$3,700 as of June 30, 2012. Accumulated depreciation for fiscal year 2012 was \$3,083. LFCS has no buildings because they utilize facilities provided by the Fairfield County Juvenile Court through a contract between the two parties.

Debt

LFCS has not incurred any debt.

Current Issues

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

Contacting the LFCS's Financial Management

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,291
Intergovernmental Receivable	47,963
Prepaid Items	<u>2,294</u>
Total Current Assets	54,548
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>617</u>
Total Assets	<u>55,165</u>
 <u>Net Assets:</u>	
Invested in Capital Assets	617
Unrestricted	<u>54,548</u>
Total Net Assets	<u>\$ 55,165</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Operating Revenues:</u>	
Foundation	<u>\$ 294,970</u>
<u>Operating Expenses:</u>	
Purchased Services	345,621
Materials and Supplies	1,336
Depreciation	616
Other Operating Expenses	35
Total Operating Expenses	<u>347,608</u>
Operating Loss	<u>(52,638)</u>
<u>Non-Operating Revenues:</u>	
State and Federal Grants	18,106
Interest Revenue	56
Total Non-Operating Revenues	<u>18,162</u>
Change in Net Assets	(34,476)
Net Assets at Beginning of Year	89,641
Net Assets at End of Year	<u><u>\$ 55,165</u></u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$ 294,970
Cash Payments to Suppliers for Goods and Services	(363,155)
Other Operating Expenses	(35)
Net Cash Used in Operating Activities	<u>(68,220)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
State and Federal Grants Received	46,327
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>56</u>
Net Decrease in Cash and Cash Equivalents	(21,837)
Cash and Cash Equivalents Beginning of Year	<u>26,128</u>
Cash and Cash Equivalents End of Year	<u><u>4,291</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</u>	
Operating Loss	(52,638)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</u>	
Depreciation Expense	616
<u>Changes in Assets and Liabilities:</u>	
Increase in Intergovernmental Receivable	(2,022)
Increase in Prepaid Items	(1,639)
Decrease in Accounts Payable	(3,130)
Decrease in Intergovernmental Payable	<u>(9,407)</u>
Net Cash Used in Operating Activities	<u><u>\$ (68,220)</u></u>

See accompanying notes to the basic financial statements

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**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 1 - Description of the School

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

LFCS began operations on October 8, 2004. LFCS entered into a five year contract with the Lancaster City School District (the Sponsor) which was renewed in July 2008 for additional five years. The Sponsor is responsible for evaluating the performance of LFCS and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the LFCS with the Treasurer of the Sponsor completing the role of Treasurer for the LFCS.

The LFCS operates under the direction of a five-member Board of Directors from the public sector appointed by the Sponsor. LFCS is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LFCS. The Sponsor can suspend the LFCS's operations for any of the following reasons: 1) The LFCS's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LFCS's failure to meet generally accepted standards of fiscal management, 3) The LFCS's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFCS and the children it serves. During fiscal year 2012, LFCS paid purchased services to the Fairfield County Juvenile Court and the Fairfield County Educational Service Center for providing staffing services. Thus, LFCS did not have any employees. LFCS used the facilities of the Fairfield County Juvenile Court.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by LFCS is reflected as "Cash and Cash Equivalents" on the statement of net assets. LFCS had no investments during the fiscal year ended June 30, 2012.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the fiscal year in which services are consumed.

G. Capital Assets

LFCS's capital assets during fiscal year 2012 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFCS maintains a capitalization threshold of five hundred dollars. All of LFCS's reported capital assets are depreciated using the straight-line method over six years of useful life.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

H. 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 LFCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

I. Operating Revenues and Expenses

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

J. Estimates

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LFCS's deposits may not be returned. LFCS does not have a deposit policy for custodial credit risk. At June 30, 2012, the bank balance of LFCS's deposits was \$13,037. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by LFCS.

Note 4 - Receivables

Receivables at June 30, 2012 consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Title II-D Grant	\$208
Improving Teacher Quality Grant	148
Owed from Fairfield County Juvenile Court	6,074
IDEA Part B Grant	7,416
Title I Grant	<u>34,117</u>
Total	<u><u>\$47,963</u></u>

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 5 - Capital Assets

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

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Computer Equipment	\$3,700	\$0	\$0	\$3,700
Less Accumulated Depreciation	(2,467)	(616)	0	(3,083)
Capital Assets, Net	<u>\$1,233</u>	<u>(\$616)</u>	<u>\$0</u>	<u>\$617</u>

Note 6 - Risk Management

LFCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2012, LFCS joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

The types and amounts of coverage provided are as follows:

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

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 7 – Purchased Services

For fiscal year 2012, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Legal and Audit Services	\$5,574
Fiscal Oversight Services	400
Tuition reimbursement	6,418
Metropolitan Educational Council for computer services	24,175
Treasurer and Board Member bonding	655
Bank Charges	106
Lancaster City School District miscellaneous services	44
Fairfield County Educational Service Center for staffing services	95,926
Fairfield County Juvenile Court for staffing and EMIS services	<u>212,323</u>
Total	<u><u>\$345,621</u></u>

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

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

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

Note 9 – Related Party Transactions

LFCS's Sponsor, Lancaster City Schools, appoints all five Board of Directors. During fiscal year 2012, LFCS had paid miscellaneous reimbursements to the Sponsor in the amount of \$44. Nothing was owed to the Sponsor as of fiscal year-end.

Note 10 – State Teachers Retirement System Plan

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

Plan Description - Certified teachers, employed by LFCS (Employer-of-Record), participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 10 – State Teachers Retirement System Plan (Continued)

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

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

Funding Policy - For year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. LFCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, 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.

LFCS's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2012, 2011, and 2010 were \$31,609, \$30,940, and \$23,675, respectively; 84 percent has been contributed for fiscal year 2012 and 100 percent for years 2011 and 2010. No contributions to the DC or Combined plans for year 2012 were made by LFCS or by the plan members. \$4,970 represents the unpaid contribution for fiscal year 2012.

Note 11 – State Teachers Retirement System Post Employment Benefits

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. LFCS's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,431, \$2,380 and \$1,821 respectively; 84 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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

Note 12 – Pool

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

Note 13 - Contingencies

A. Student Attendance and Grants

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

LFCS received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFCS. These reviews are conducted to ensure LFCS is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2012, LFCS received \$2,411 from the Ohio Department of Education for underpayments received during in fiscal year 2011. The fiscal year 2012 Ohio Department of Education review is not available at this time.

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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*

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

To the Board of Directors:

We have audited the financial statements of Lancaster-Fairfield Community School, Fairfield County, Ohio, (the School) a component unit of Lancaster City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. 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's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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'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'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*.

Lancaster Fairfield Community School
Fairfield County
Independent Accountants' Report on Internal Control over
Financial Report and on Compliance and Other Matters
Required by Governmental Auditing Standards
Page 2

We intend this report solely for the information and use of management, the Board of Directors, and the Lancaster City 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

October 1, 2012



Dave Yost • Auditor of State

LANCASTER FAIRFIELD COMMUNITY SCHOOL

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 8, 2012