

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY
Regular Audit
For the Fiscal Year Ended June 30, 2014**

Perry & Associates
Certified Public Accountants, A.C



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Fairlawn Local School District, Shelby County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 20, 2015

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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INDEPENDENT AUDITOR'S REPORT

December 31, 2014

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Fairlawn Local School District**, Shelby County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairlawn Local School District, Shelby County, Ohio, as of June 30, 2014, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the School District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, governmental activities and outstanding debt. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED**

The discussion and analysis of Fairlawn Local School District's (the School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2014, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for 2014 are as follows:

In total, net position of governmental activities increase by \$661,607. The fund most affected by the increase in cash and cash equivalents was the General Fund.

The Government's general fund receipts, those being primarily property tax, income tax and unrestricted state aid, were 70 percent of the total general fund cash received during the fiscal year. Dependence on these three revenue sources is significant.

The School District received \$1,464,983 in open enrollment tuition revenue from the state. This represents 26 percent of the total general fund cash received during the fiscal year. Open enrollment is a significant revenue source for the general fund.

Using the Basic Financial Statements

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

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

The statement of net position and the statement of activities provide information about the cash activities of the whole School District. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Fairlawn Local School District, the General Fund is the most significant fund. The Bond Retirement Fund is also a major fund in 2014.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2014, within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the School District at year-end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

Reporting the School District's Most Significant Funds

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2014 compared to fiscal year 2013.

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

| | 2014 | 2013 |
|--|--------------|--------------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 6,299,740 | \$ 5,638,133 |
| Total Assets | 6,299,740 | 5,638,133 |
| Net Position: | | |
| Restricted | 1,669,847 | 1,522,355 |
| Unrestricted | 4,629,893 | 4,115,798 |
| Total Net Position | \$ 6,299,740 | \$ 5,638,133 |

The total net position for governmental activities increased by \$661,607. The primary reasons contributing to the increase in cash balance are as follows:

The General Fund increased by \$525,587. The District received additional property tax revenue due to an increase in agricultural values. The School District also had an increase in open enrollment revenue.

The General Fund had an employee salary freeze.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

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

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|---------------------|---------------------|
| Revenues | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$ 1,797,973 | \$ 1,756,457 |
| Operating Grants and Contributions | 645,375 | 545,025 |
| General Revenues: | | |
| Property Taxes | 1,500,755 | 1,577,471 |
| Income Taxes | 413,491 | 356,059 |
| Grants and Entitlements | 2,517,028 | 2,419,991 |
| Interest | 9,221 | 5,176 |
| Miscellaneous | 34,564 | 50,588 |
| Total Revenues | <u>6,918,407</u> | <u>6,710,767</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | 2,145,897 | 2,150,509 |
| Special | 542,418 | 430,820 |
| Adult/Continuing | 132 | 792 |
| Support Services: | | |
| Pupil | 299,847 | 254,726 |
| Instructional Staff | 360,826 | 426,745 |
| Board of Education | 11,363 | 11,630 |
| Administration | 559,582 | 560,972 |
| Fiscal | 246,316 | 259,884 |
| Business | 6,175 | 5,389 |
| Operation and Maintenance of Plant | 694,774 | 634,193 |
| Pupil Transportation | 487,791 | 365,813 |
| Central | 267,715 | - |
| Operational of Non-Instructional | 200,043 | 267,393 |
| Extracurricular Activities | 81,133 | 184,422 |
| Capital Outlay | - | 20,787 |
| Debt Service: | | |
| Principal | 155,000 | 150,000 |
| Interest and Fiscal Charges | 197,788 | 203,889 |
| Total Program Expenses | <u>6,256,800</u> | <u>5,927,964</u> |
| Change in Net Position | 661,607 | 782,803 |
| Net Position Beginning of Year | 5,638,133 | 4,855,330 |
| Net Position End of Year | <u>\$ 6,299,740</u> | <u>\$ 5,638,133</u> |

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The School District as a Whole (Continued)

In 2014, program receipts represent a total of 35% of total receipts. This is primarily due to the School District having a high number of incoming open enrollment students. Open enrollment revenue consists of 26% of total receipts. Restricted intergovernmental receipts, tuition, food service, fees and extracurricular activities also make up program receipts

The major program disbursement for governmental activities is for instruction - 34 percent. Support services, which include administration, fiscal, operation and maintenance of plant, and pupil transportation expenses represent a significant amount of the School District's governmental expenses. Debt service accounted for 6% of all governmental expenses.

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

**Table 3
Governmental Activities**

| | Total Cost of Service 2014 | Net Cost of Service 2014 | Total Cost of Service 2013 | Net Cost of Service 2013 |
|---------------------------------------|---|---|---|---|
| Instruction: | | | | |
| Regular | \$ 2,145,897 | (440,793) | \$ 2,150,509 | (417,445) |
| Special | 542,418 | (276,975) | 430,820 | (244,710) |
| Adult/Continuing | 132 | (132) | 792 | (792) |
| Support Services: | | | | |
| Pupil | 299,847 | (236,362) | 254,726 | (242,078) |
| Instructional Staff | 360,826 | (277,331) | 426,745 | (403,660) |
| Board of Education | 11,363 | (11,363) | 11,630 | (11,630) |
| Administration | 559,582 | (559,582) | 560,972 | (560,972) |
| Fiscal | 246,316 | (246,316) | 259,884 | (259,884) |
| Business | 6,175 | (6,175) | 5,389 | (5,389) |
| Operation and Maintenance of Plant | 694,774 | (684,488) | 634,193 | (623,907) |
| Pupil Transportation | - | - | - | (365,813) |
| Pupil Transportation | 487,791 | (487,124) | 365,813 | - |
| Operation of Non-Instructional | 267,715 | (50,860) | 267,393 | (31,992) |
| Extracurricular Activities | 200,043 | (166,827) | 184,422 | (147,523) |
| Capital Outlay | 81,133 | (81,133) | 20,787 | (20,787) |
| Debt Service: | | | | |
| Principal | 155,000 | (155,000) | 150,000 | (150,000) |
| Interest and Fiscal Charges | 197,788 | (132,991) | 203,889 | (139,900) |
| Total | \$ 6,256,800 | \$ (3,813,452) | \$ 5,927,964 | \$(3,626,482) |

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Governmental Activities Financial Analysis

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund and Bond Retirement Fund. The net change in fund balance in the General Fund reflects an increase of \$525,587 and Bond Retirement Fund an increase of \$153,189.

- The School District has been able to maintain enrollment and keep state funding consistent with prior years. Open enrollment students continue to be higher allowing the District to increase revenue.
- The School District has been able to control salary and benefit costs.

Budgetary Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted funds are the General Fund and Bond Retirement Fund. During fiscal year 2014, the School District amended its General Fund budget as needed. The School District uses a site based budgeting to allow flexibility for each individual School District management.

The original appropriations of the General Fund were increased by \$115,975 throughout the year.

Debt Administration

The School District issued bonds for \$5,800,000 in March 2007. The bonds will be repaid by the voters approving a 10.34 mill levy in November 2006. The School District repaid \$155,000 in principle in 2014. Additional information on the School District's long-term debt can be found in Note 12 to the financial statements.

Current Issues

The Fairlawn Local School District is financially stable. However, future finances are not without challenges as enrollment changes and state funding is revised. The School District is very heavily reliant on state funding. The biggest concern is the State of Ohio budgetary problems and the effect it will have on the School District.

Contacting the Government's Financial Management

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

FAIRLAWN LOCAL SCHOOL DISTRICT

Statement of Net Position - Cash Basis

As of June 30, 2014

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 6,299,740</u> |
| <i>Total Assets</i> | <u><u>6,299,740</u></u> |
| | |
| Net Position | |
| Restricted for: | |
| Debt Service | 758,928 |
| Other Purposes | 910,919 |
| Unrestricted | <u>4,629,893</u> |
| <i>Total Net Position</i> | <u><u>\$ 6,299,740</u></u> |

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2014*

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|------------------------------------|---------------------|-----------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$ 2,145,897 | \$ 1,523,760 | \$ 181,344 | \$ (440,793) |
| Special | 542,418 | 126,308 | 139,135 | (276,975) |
| Adult/Continuing | 132 | - | - | (132) |
| Support Services: | | | | |
| Pupil | 299,847 | - | 63,485 | (236,362) |
| Instructional Staff | 360,826 | - | 83,495 | (277,331) |
| Board of Education | 11,363 | - | - | (11,363) |
| Administration | 559,582 | - | - | (559,582) |
| Fiscal | 246,316 | - | - | (246,316) |
| Business | 6,175 | - | - | (6,175) |
| Operation and Maintenance of Plant | 694,774 | - | 10,286 | (684,488) |
| Pupil Transportation | 487,791 | - | 667 | (487,124) |
| Operation of Non-Instructional | 267,715 | 114,689 | 102,166 | (50,860) |
| Extracurricular Activities | 200,043 | 33,216 | - | (166,827) |
| Capital Outlay | 81,133 | - | - | (81,133) |
| Debt Service | | | | |
| Principal | 155,000 | - | - | (155,000) |
| Interest and Fiscal Charges | 197,788 | - | 64,797 | (132,991) |
| Totals | \$ 6,256,800 | \$ 1,797,973 | \$ 645,375 | (3,813,452) |

General Revenues

Property Taxes Levied for:

 General Purposes 1,049,209

 Debt Service 451,546

Income Taxes Levied for:

 General Purposes 413,491

Grants and Entitlements not Restricted

 to Specific Programs 2,517,028

Investment Earnings 9,221

Miscellaneous 34,564

Total General Revenues 4,475,059

Change in Net Position 661,607

Net Position Beginning of Year 5,638,133

Net Position End of Year \$ 6,299,740

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
As of June 30, 2014

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 4,579,893 | \$ 758,928 | \$ 960,919 | \$ 6,299,740 |
| <i>Total Assets</i> | <u>\$ 4,579,893</u> | <u>\$ 758,928</u> | <u>\$ 960,919</u> | <u>\$ 6,299,740</u> |
| Fund Balances | | | | |
| Restricted | \$ - | \$ 758,928 | \$ 910,919 | \$ 1,669,847 |
| Committed | - | - | 100,000 | 100,000 |
| Assigned | 51,478 | - | - | 51,478 |
| Unassigned (Deficit) | 4,528,415 | - | (50,000) | 4,478,415 |
| <i>Total Fund Balances (Deficits)</i> | <u>\$ 4,579,893</u> | <u>\$ 758,928</u> | <u>\$ 960,919</u> | <u>\$ 6,299,740</u> |

See accompanying notes to the basic financial statements

FAIRLAWN LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Cash Balances
Governmental Funds - Cash Basis
For the Fiscal Year Ended June 30, 2014

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$ 1,445,200 | \$ 451,546 | \$ 17,500 | \$ 1,914,246 |
| Intergovernmental | 2,517,028 | 64,797 | 580,578 | 3,162,403 |
| Interest | 9,197 | - | 24 | 9,221 |
| Tuition and Fees | 1,639,258 | - | - | 1,639,258 |
| Extracurricular Activities | - | - | 44,026 | 44,026 |
| Charges for Services | - | - | 114,689 | 114,689 |
| Miscellaneous | 24,958 | - | 9,606 | 34,564 |
| <i>Total Revenues</i> | <u>5,635,641</u> | <u>516,343</u> | <u>766,423</u> | <u>6,918,407</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 1,978,498 | - | 167,399 | 2,145,897 |
| Special | 404,874 | - | 137,544 | 542,418 |
| Adult/Continuing | 132 | - | - | 132 |
| Support Services: | | | | |
| Pupil | 220,808 | - | 79,039 | 299,847 |
| Instructional Staff | 258,111 | - | 102,715 | 360,826 |
| Board of Education | 11,363 | - | - | 11,363 |
| Administration | 559,582 | - | - | 559,582 |
| Fiscal | 235,950 | 10,366 | - | 246,316 |
| Business | 6,175 | - | - | 6,175 |
| Operation and Maintenance of Plant | 694,774 | - | - | 694,774 |
| Pupil Transportation | 481,124 | - | 6,667 | 487,791 |
| Central | - | - | - | - |
| Operation of Non-Instructional Services | - | - | 267,715 | 267,715 |
| Extracurricular Activities | 157,530 | - | 42,513 | 200,043 |
| Capital Outlay | 81,133 | - | - | 81,133 |
| Debt Service: | | | | |
| Principal Retirement | - | 155,000 | - | 155,000 |
| Interest and Fiscal Charges | - | 197,788 | - | 197,788 |
| <i>Total Expenditures</i> | <u>5,090,054</u> | <u>363,154</u> | <u>803,592</u> | <u>6,256,800</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>545,587</u> | <u>153,189</u> | <u>(37,169)</u> | <u>661,607</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | - | 20,000 | 20,000 |
| Transfers Out | (20,000) | - | - | (20,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(20,000)</u> | <u>-</u> | <u>20,000</u> | <u>-</u> |
| <i>Net Change in Fund Balances</i> | 525,587 | 153,189 | (17,169) | 661,607 |
| <i>Fund Balances Beginning of Year</i> | <u>4,054,306</u> | <u>605,739</u> | <u>978,088</u> | <u>5,638,133</u> |
| <i>Fund Balances End of Year</i> | <u>\$ 4,579,893</u> | <u>\$ 758,928</u> | <u>\$ 960,919</u> | <u>\$ 6,299,740</u> |

See accompanying notes to the basic financial statements

Fairlawn Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual - Cash Basis
General Fund
For the Fiscal Year Ended June 30, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|---|-------------------------|---------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | | Final Budget Favorable (Unfavorable) |
| Revenues | | | | |
| Taxes | \$ 1,300,000 | \$ 1,300,000 | \$ 1,445,200 | \$ 145,200 |
| Intergovernmental | 2,400,000 | 2,400,000 | 2,517,028 | 117,028 |
| Interest | 4,400 | 4,400 | 9,197 | 4,797 |
| Tuition and Fees | 1,511,089 | 1,511,089 | 1,639,258 | 128,169 |
| Miscellaneous | 24,000 | 24,000 | 24,958 | 958 |
| <i>Total Revenues</i> | <u>5,239,489</u> | <u>5,239,489</u> | <u>5,635,641</u> | <u>396,152</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,139,568 | 2,139,568 | 1,978,498 | 161,070 |
| Special | 400,000 | 415,000 | 404,874 | 10,126 |
| Adult/Continuing | 500 | 500 | 132 | 368 |
| Support Services: | | | | |
| Pupils | 220,000 | 225,000 | 220,808 | 4,192 |
| Instructional Staff | 260,000 | 260,000 | 258,111 | 1,889 |
| Board of Education | 12,000 | 12,000 | 11,363 | 637 |
| Administration | 560,000 | 560,000 | 559,582 | 418 |
| Fiscal | 240,000 | 240,000 | 235,950 | 4,050 |
| Business | 6,500 | 6,500 | 6,175 | 325 |
| Operation and Maintenance of Plant | 700,000 | 700,000 | 694,774 | 5,226 |
| Pupil Transportation | 485,000 | 485,000 | 481,124 | 3,876 |
| Extracurricular Activities | 160,000 | 160,000 | 157,530 | 2,470 |
| Capital Outlay | 20,000 | 115,975 | 81,133 | 34,842 |
| <i>Total Expenditures</i> | <u>5,203,568</u> | <u>5,319,543</u> | <u>5,090,054</u> | <u>229,489</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>35,921</u> | <u>(80,054)</u> | <u>545,587</u> | <u>625,641</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (20,000) | (20,000) | (20,000) | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>(20,000)</u> | <u>(20,000)</u> | <u>(20,000)</u> | <u>-</u> |
| <i>Net Change in Fund Balance</i> | 15,921 | (100,054) | 525,587 | 625,641 |
| <i>Fund Balance Beginning of Year</i> | 4,026,449 | 4,026,449 | 4,026,449 | - |
| Prior Year Encumbrances Appropriated | 27,857 | 27,857 | 27,857 | - |
| <i>Fund Balance End of Year</i> | <u>\$ 4,070,227</u> | <u>\$ 3,954,252</u> | <u>\$ 4,579,893</u> | <u>\$ 625,641</u> |

See accompanying notes to the basic financial statements

FAIRALWN LOCAL SCHOOL DISTRICT
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
As of June 30, 2014

| | Private Purpose Trust | |
|--|--------------------------|-----------|
| | Scholarship | Agency |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 400 | \$ 84,835 |
| Net Cash Position | | |
| Held in Trust for Scholarships | 400 | - |
| Held in Student Activities | - | 84,835 |
| <i>Total Net Cash Position</i> | \$ 400 | \$ 84,835 |

See accompanying notes to the basic financial statements

Fairlawn Local School District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2014

| | Private Purpose Trust |
|---------------------------------------|--------------------------|
| | Scholarship |
| Additions | |
| Gifts and Donation | \$ 400 |
| Deductions | |
| Noninstructional Services | 500 |
| <i>Change in Net Position</i> | (100) |
| <i>Net Position Beginning of Year</i> | 500 |
| <i>Net Position End of Year</i> | \$ 400 |

See accompanying notes to the basic financial statements

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1953. The School District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The School District is the 500th smallest in the State of Ohio (among 612 school districts) in terms of enrollment. This Board controls the School District's one instructional/support facility staffed by 36 non-certificated employees, 37 certificated full time teaching personnel and 3 administrative employees to provide services to 660 students and other community members.

Reporting Entity

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

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

The School District is associated with the Western Ohio Computer Organization (WOCO), Shelby County Local Professional Development Committee, Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), and West Central Ohio Special Education Regional Resource Center (SERRC), jointly governed organizations. The School District is also associated with the SOEPC workers comp group rating plan, SOEPC property and liability insurance pool and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 13 and 14 to the cash basis financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Fund Accounting

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

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

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

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

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

C. Cash, Cash Equivalents and Investments

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

The School District values investments and cash equivalents at cost. For presentation on the financial statements, the School District classifies investments of the cash management pool as cash equivalents. Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2013 was \$9,197 including \$2,483 assigned from other School District funds.

D. Restricted Assets

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

E. Inventory and Prepaid Items

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

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

G. Compensated Absences

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

H. Long-term Obligations

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

I. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the 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 legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans 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: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed 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 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Balance (Continued)

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted

J. Net Position

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

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

K. Interfund Activity

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

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

L. Extraordinary and Special Items

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

M. Budgetary Data

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Budgetary Data (Continued)

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

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

3. COMPLIANCE

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

4. PROPERTY AND INCOME TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. PROPERTY AND INCOME TAXES (Continued)

The assessed values upon which the fiscal year 2014 taxes were collected are:

| | 2014 Second - Half Collections | | 2013 First - Half Collections | |
|--|--------------------------------|----------------|-------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/ Residential and Other Real Estate | \$ 45,154,420 | 90.00% | \$ 44,827,020 | 89.00% |
| Public Utility Personal | 5,183,750 | 10.00 | 5,497,750 | 11.00 |
| Total | <u>\$ 50,338,170</u> | <u>100.00%</u> | <u>\$ 50,327,770</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$38.17 | | \$38.17 | |

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

5. INTERFUND TRANSFERS

Interfund cash transfers for the year ended June 30, 2014 were as follows:

| Transfer from | Transfer to | Amount |
|---------------|-------------------|-----------|
| General Fund | Food Service Fund | \$ 20,000 |

The transfer from the General Fund to the Food Service fund was for operating purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

6. DEPOSITS AND INVESTMENTS

Ohio law restricts deposits and investments to the following:

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

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

Undeposited Cash: At year-end, the School District's had \$100 in undeposited cash on hand, included as part of *Equity in pooled cash and cash equivalents*.

Deposits: At year-end, the carrying amount of the School District's deposits was \$5,384,875 and the bank balance was \$5,464,509. Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2014, \$750,000 of the bank balance was covered by federal depository insurance. However, based on the criteria described in GASB Statement No. 40, Deposits and Investments Risk Disclosures, the School District's remaining bank balance of \$4,634,875 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments: As of June 30, 2014 the School District had one investment – FHLB note with carrying value of \$1,000,000 maturing on May 14, 2019.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. RISK MANAGEMENT

A. Commercial Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District joined a self-insurance pool through the Southwest Ohio EPC for the following insurance coverage:

Coverage provided by various companies.

| | |
|---|---------------|
| Buildings and Contents – replacement cost | \$ 22,000,000 |
| General Liability - Per Occurrence | 6,000,000 |
| General Liability –Aggregate | 8,000,000 |
| Automobile Liability | 6,000,000 |
| Uninsured Motorists | 8,000,000 |

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

B. Workers' Compensation

For fiscal year 2014, the School District participated in the Sheakely Compensation Group Rating Program, an insurance purchasing pool (Note 14). The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays \$350 enrollment fee to the Plan to cover the costs of administering the program.

C. Employee Medical Benefits

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(Continued)

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$155,256, \$141,192 and \$133,896, respectively; 100 percent cash obligation has been contributed for fiscal years 2014, 2013, and 2012.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRSOhio), 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 website at www.strsoh.org, under "Publications".

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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

For fiscal year 2014, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 the DB Plan for the fiscal years ended June 30, 2014, 2013, and 2012 were \$283,188, \$266,088, and \$279,912 respectively; 100 percent of cash obligation has been contributed for fiscal year 2014, 2013, and 2012. Contributions to the DC and Combined Plans for fiscal year 2013 were not material.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

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 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$16,089, \$12,811 and \$12,281, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012 were \$7,763, \$7,418 and \$7,665 respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. State Teachers Retirement System

The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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, under "Publications" or by calling (888) 227-7877.

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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$19,823, \$18,626 and \$19,250, respectively; 100 percent has been contributed for fiscal year 2014, 2013 and 2012.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

10. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2014 will not have a material adverse effect on the School District.

B. Litigation

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

11. SET-ASIDE CALCULATIONS

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 acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years

The following cash basis information describes the change in the year-end set-aside amounts for capital acquisition.

| | | |
|---|-----------|------------------|
| Balance June 30, 2013 | \$ | - |
| Current Year Set Aside Requirement | | 108,804 |
| Qualifying Expenditures | | <u>(108,804)</u> |
| Set Aside Reserve Balance June 30, 2014 | <u>\$</u> | <u>-</u> |

12. LONG TERM LIABILITIES

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

| <u>School Improvement</u> | <u>Principal Outstanding 6/30/2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Principal Outstanding 6/30/2014</u> | <u>Amount Due in One Year</u> |
|-------------------------------|--|------------------|---------------------|--|---------------------------------------|
| Serial Bonds | \$ 480,000 | \$ - | \$ (155,000) | \$ 325,000 | \$ 160,000 |
| Term Bonds | 4,445,000 | - | - | 4,445,000 | - |
| Capital Appreciation Bonds | 100,000 | - | - | 100,000 | - |
| Appreciation on Capital Bonds | 130,680 | 21,780 | - | 152,460 | - |
| | <u>\$ 5,155,680</u> | <u>\$ 21,780</u> | <u>\$ (155,000)</u> | <u>\$ 5,022,460</u> | <u>\$ 160,000</u> |

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

12. LONG TERM LIABILITIES (CONTINUED)

| Year Ended | General Obligation Term/Serial Bonds | | | General Obligation Capital Appreciation Bonds | | |
|------------|--------------------------------------|---------------------|---------------------|--|-------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2015 | \$ 160,000 | \$ 191,488 | \$ 351,488 | \$ - | \$ - | \$ - |
| 2016 | 165,000 | 184,989 | 349,989 | - | - | - |
| 2017 | - | 181,688 | 181,688 | 53,078 | 121,922 | 175,000 |
| 2018 | - | 181,688 | 181,688 | 46,922 | 128,078 | 175,000 |
| 2019 | 175,000 | 178,189 | 353,189 | - | - | - |
| 2020-2024 | 980,000 | 778,444 | 1,758,444 | - | - | - |
| 2025-2029 | 1,190,000 | 561,685 | 1,751,685 | - | - | - |
| 2020-2034 | 1,455,000 | 291,886 | 1,746,886 | - | - | - |
| 2035-2036 | 645,000 | 26,775 | 671,775 | - | - | - |
| Total | <u>\$ 4,770,000</u> | <u>\$ 2,576,832</u> | <u>\$ 7,346,832</u> | <u>\$ 100,000</u> | <u>\$ 250,000</u> | <u>\$ 350,000</u> |

The School District's overall legal debt margin was \$4,530,435 with an energy conservation debt margin of \$453,043 and un-voted debt margin of \$50,338 at June 30, 2014.

Term Bonds

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

| Year | Amount |
|------|-----------|
| 2018 | \$175,000 |

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

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

| Year | Amount |
|------|-----------|
| 2020 | \$190,000 |

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

12. LONG TERM LIABILITIES (CONTINUED)

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

| Year | Amount |
|------|-----------|
| 2022 | \$205,000 |

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

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

| Year | Amount |
|------|-----------|
| 2024 | \$220,000 |

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

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

| Year | Amount |
|------|-----------|
| 2026 | \$240,000 |

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

12. LONG TERM LIABILITIES (CONTINUED)

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

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

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

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

The capital appreciation bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$175,000 each year representing interest that accretes over the term of the bonds. The accreted value of the capital appreciation bonds at June 30, 2014 is \$152,460.

13. JOINTLY GOVERNED ORGANIZATIONS

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

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the School District. The School District paid WOCO \$50,328 for services provided during the fiscal year 2014. Financial information can be obtained from Don Walls, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

14. PURCHASING POOLS

Workers' Compensation Group Rating Plan

For fiscal year 2014, the School District participated in the Sheakely Compensation Group Rating Program, an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Sheakely Uniservice Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

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

Southwestern Ohio Educational Purchasing Council Insurance Program – The School District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. During fiscal year 2014, this program was expanded to include 52 school districts with combined student enrollment of 102,095, and combined values of \$3,641,092,114. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

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

The School District paid \$33,794 to the group during fiscal year 2014 for Property and Casualty Insurance. Specialty Claim is responsible for processing claims. Arthur J. Gallagher Risk Management Services, Inc is the sales and marketing representative, which establishes agreements between Southwest Ohio Educational Purchasing Council Insurance Program and member schools.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

15. FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | Bond Retirement | Other Governmental Funds | Total |
|-----------------------------|--------------|--------------------|--------------------------------|--------------|
| Restricted for | | | | |
| Food Service Operations | \$ - | \$ - | \$ 36,908 | \$ 36,908 |
| Athletics | - | - | 6,954 | 6,954 |
| Debt Service Payments | - | 758,928 | - | 758,928 |
| Other Purposes | - | - | 867,057 | 867,057 |
| <i>Total Restricted</i> | - | 758,928 | 910,919 | 1,669,847 |
| Committed to | | | | |
| Other Purposes | - | - | 100,000 | 100,000 |
| <i>Total Committed</i> | - | - | 100,000 | 100,000 |
| Assigned to | | | | |
| Other Purposes | 51,478 | - | - | 51,478 |
| Unassigned (Deficit) | 4,528,415 | - | (50,000) | 4,478,415 |
| <i>Total Fund Balances</i> | \$ 4,579,893 | \$ 758,928 | \$ 960,919 | \$ 6,299,740 |

16. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the District has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

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

December 31, 2014

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairlawn Local School District, Shelby County, (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 31, 2014, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the School 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2014-001.

We also noted matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated December 31, 2014.

Entity's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

FINDING NUMBER 2014-001

Material Noncompliance

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

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

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

Management's Response – The School District has elected not to prepare GAAP basis financial statements due to cost concerns.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|---------------------------|---------------------------------|-----------------------------|--|
| 2013-001 | Cash-Basis Financial Statements | No | Repeated as Finding 2014-001 |

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Dave Yost • Auditor of State

FAIRLAWN LOCAL SCHOOL DISTRICT

SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 2, 2015**