



**Auditor of State
Betty Montgomery**

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

We have audited the accompanying financial statements of Fairborn City School District, Greene County (the "District"), as of and for the year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We were unable to obtain sufficient evidential matter supporting the claims disbursement activity within the Self Insurance Fund, nor were we able to satisfy ourselves as to the completeness and accuracy by other auditing procedures. This financial activity represents all reported disbursements of the Self Insurance Fund - Internal Service Fund Type. We were also unable to obtain sufficient evidential matter supporting the charges for services (food services) activity for the enterprise fund, nor were we able to satisfy ourselves as to the completeness and accuracy by other auditing procedures.

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, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting the amounts reported for disbursements in the Self Insurance Fund - Internal Service Fund Type, or charges for services (food services) in the Enterprise Fund, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Fairborn City School District, as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

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As described in Note 3, during the year ended June 30, 2003, the District changed its method of accounting for financial reporting.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. The Ohio Department of Education performed a fiscal analysis in November 2003, which reported that a significant series of cost reductions will need to be implemented in order to avoid deficit balances at June 30, 2004. The General Fund unencumbered fund balance at January 31, 2004, was a deficit of \$281,308. The Ohio Department of Education placed the District in fiscal caution on February 13, 2004.

Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plan in regards to this matter is discussed in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 13, 2004

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Funds	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$13,629,594		\$1,380,970			\$15,010,564
Tuition	119,047					119,047
Transportation Fees	16,713					16,713
Intergovernmental	21,938,511	\$2,449,182	169,628			24,557,321
Earnings on Investments	490,704	66		\$92,222	\$90	583,082
Extracurricular Activities	42,424	211,359				253,783
Classroom Materials & Fees	25,128					25,128
Miscellaneous	438,951	98,858			15,470	553,279
Total Revenues	36,701,072	2,759,465	1,550,598	92,222	15,560	41,118,917
Expenditures:						
Current:						
Instruction:						
Regular	19,160,762	857,062		40,697	1,100	20,059,621
Special	3,424,270	1,014,499				4,438,769
Vocational	9,007					9,007
Adult/Continuing	98,315					98,315
Other	1,263,348					1,263,348
Support Services:						
Pupils	2,126,676	382,462				2,509,138
Instruction	1,994,968	378,946		90,078		2,463,992
Board of Education	51,089					51,089
Administration	3,062,927	20,676				3,083,603
Fiscal	730,751		12,398			743,149
Business	95,010					95,010
Operation and Maintenance	3,989,117			5,955		3,995,072
Transportation	2,145,442					2,145,442
Central Services	758,950	56,003				814,953
Non-Instructional Services	58	87,612			7,400	95,070
Extracurricular Activities	570,620	68,206				638,826
Capital Outlay				3,972,502		3,972,502
Debt Service:			2,096,311			2,096,311
Total Expenditures	39,481,310	2,865,466	2,108,709	4,109,232	8,500	48,573,217
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,780,238)	(106,001)	(558,111)	(4,017,010)	7,060	(7,454,300)
Other Financing Sources (Uses):						
Sale of Assets	13,217					13,217
Sale of Bonds			255,000			255,000
Advances In		98,329				98,329
Transfer In		5,000	313,698		3,000	321,698
Refund of Prior Year Expenditures	124,610	50			125	124,785
Advances Out	(124,536)					(124,536)
Operating Transfers Out	(357,522)					(357,522)
Total Other Financing Sources (Uses)	(344,231)	103,379	568,698		3,125	330,971
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,124,469)	(2,622)	10,587	(4,017,010)	10,185	(7,123,329)
Fund Balances at Beginning of Year, Restated	6,088,867	804,220	660,686	10,816,238	48,234	18,418,245
Fund Balances at End of Year	\$2,964,398	\$801,598	\$671,273	\$6,799,228	\$58,419	\$11,294,916
Reserved for Encumbrances	\$972,357	\$74,312	\$89,751	\$102,902	\$340	\$1,239,662

The accompanying notes are an integral part of the financial statements.

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust	Agency	
Operating Receipts:					
Food Services	\$774,875				\$774,875
Extracurricular Activities				\$127,108	127,108
Classroom Materials and Fees	87,547				87,547
Interest			\$1,420		1,420
Miscellaneous			3,325		3,325
Total Operating Receipts	862,422		4,745	127,108	994,275
Operating Disbursements:					
Salaries	508,723				508,723
Retirement & Insurances	147,804				147,804
Purchased Services	7,162	\$4,032,415		34,315	4,073,892
Capital Outlay	39,364				39,364
Materials and Supplies	584,230			130,965	715,195
Other Objects	3,399		36,339	10,758	50,496
Total Operating Disbursements	1,290,682	4,032,415	36,339	176,038	5,535,474
Excess of Operating Receipts Over/(Under) Operating Disbursements	(428,260)	(4,032,415)	(31,594)	(48,930)	(4,541,199)
Non-Operating Receipts:					
Miscellaneous		4,817,297		28,682	4,845,979
Interest	615				615
Federal and State Subsidies	456,284				456,284
Total Non-Operating Receipts	456,899	4,817,297		28,682	5,302,878
Excess of Operating Receipts and Non-Operating Receipts Over/(Under) Operating Disbursements Before Transfers and Advances	28,639	784,882	(31,594)	(20,248)	761,679
Other Financing Receipts and /(Disbursements):					
Advances In				26,207	26,207
Operating Transfers In				35,824	35,824
Refund of Prior Year Expenditure			1,000		1,000
Refund of Prior Year Receipt		(25,700)			(25,700)
Total Other Financing Receipts and /(Disbursements)		(25,700)	1,000	62,031	37,331
Net Excess of Receipts Over/(Under) Disbursements	28,639	759,182	(30,594)	41,783	799,010
Fund Balance at Beginning of Year, Restated	564,994	173,070	720,208	95,008	1,553,280
Fund Balance at End of Year	\$593,633	\$932,252	\$689,614	\$136,791	\$2,352,290
Reserve for Encumbrances	\$62,229	\$257,609	\$0	\$69,349	\$389,187

The accompanying notes are an integral part of the financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$37,681,500	\$36,838,899	(\$842,601)
Special Revenue Funds	2,782,148	2,862,844	80,696
Debt Service Funds	1,405,179	2,119,296	714,117
Capital Project Funds	90,000	92,222	2,222
Proprietary:			
Enterprise Funds	1,013,450	1,319,321	305,871
Internal Service Funds	2,025,850	4,817,297	2,791,447
Fiduciary:			
Expendable Trust Funds	1,000	18,685	17,685
Nonexpendable Trust Funds	1,000	5,745	4,745
Total (Memorandum Only)	<u>\$45,000,127</u>	<u>\$48,074,309</u>	<u>\$3,074,182</u>

The notes to the financial statements are an integral part of this statement.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total
Governmental:			
General Fund	\$1,167,621	\$37,176,237	\$38,343,858
Special Revenue Funds	100,644	2,280,798	2,381,442
Debt Service Funds	90,633	2,283,239	2,373,872
Capital Project Funds	1,412,974	6,806,915	8,219,889
Proprietary:			
Enterprise Funds	88,562	1,228,525	1,317,087
Internal Service Funds	166,372	2,722,921	2,889,293
Fiduciary:			
Expendable Trust Funds		7,805	7,805
Nonexpendable Trust Funds	1,250	42,839	44,089
Total (Memorandum Only)	<u>\$3,028,056</u>	<u>\$52,549,279</u>	<u>\$55,577,335</u>

The notes to the financial statements are an integral part of this statement.

Actual 2003 Disbursements	Encumbrances Outstanding At 6/30/03	Total	Variance Favorable/ (Unfavorable)
\$39,963,368	\$972,357	\$40,935,725	(\$2,591,867)
2,865,466	74,312	2,939,778	(558,336)
2,108,709	89,751	2,198,460	175,412
4,109,232	102,902	4,212,134	4,007,755
1,290,682	62,229	1,352,911	(35,824)
4,058,115	257,609	4,315,724	(1,426,431)
8,500	340	8,840	(1,035)
36,339	0	36,339	7,750
\$54,440,411	\$1,559,500	\$55,999,911	(\$422,576)

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**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Fairborn City School District (the "District") has grown from a union of the Fairborn, Osborn and Bath Township schools, which took place when the town of Osborn was moved. The earliest school records available are of Bath Township schools' purchase of land on September 1, 1856. The oldest historical record of the Osborn schools is a meeting of the Board of Education of July 27, 1906. The early history of the Fairfield school system consists of a log schoolhouse, one room up and two rooms down, in 1873. When consolidation of the three school systems was suggested there was much of the usual opposition. However, consolidation passed by a small majority and the school year 1923 started under the new plan. Today the District operates under the current standards prescribed by the Ohio Department of Education as provided in division (D) of sections 3301.07 and 119.01 of the Ohio Revised Code. The District is established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies.

A. Reporting

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has one component unit.

Fairborn Digital Academy Community School (the Academy) is a legally separate, not-for-profit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the K – 12 population primarily through distance learning technologies. The comprehensive educational program will address special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including some home-schooled students, who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy operates under the direction of a seven member Board of Directors, with Fairborn City School District acting as their sponsor. Based on the fact that Fairborn City School District appoints the voting majority of the Board of Directors and is able to significantly influence the programs or services performed or provided, the Fairborn Digital Academy is a component unit of the District. However, the District reports on the cash basis of accounting which does not reflect component units within their financial statements and related note disclosures. Separately issued financial statements can be obtained from Fairborn Digital Academy at 306 East Whittier Avenue, Fairborn, Ohio 45324-5313.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

The District is associated with five jointly governed organizations and one public entity risk pool. These organizations include the Southwestern Ohio Educational Purchasing Council, Miami Valley Special Education Regional Resource Center, Southwestern Ohio Instructional Technology Association, Green County Career Center, Metropolitan Dayton Educational Cooperative Association, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 8 and 9 of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Funds - The capitol projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

2. Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund types:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - Internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

3. Fiduciary Fund Types

Fiduciary Funds - are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, nonexpendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

F. Property, Plant And Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns On Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>
Fund Balance / Retained Earnings June 30, 2002	\$4,385,163	\$680,956	\$261,282	\$10,865,259	\$48,232
Accrual adjustments Restated Fund	\$1,703,704	\$123,264	\$399,404	(\$ 49,021)	\$ 2
Balance July 1, 2002	<u>\$6,088,867</u>	<u>\$804,220</u>	<u>\$660,686</u>	<u>\$10,816,238</u>	<u>\$48,234</u>

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>
Fund Balance / Retained Earnings June 30, 2002	\$ 748,632	(\$130,381)	\$720,208
Accrual adjustments Restated Fund	(\$183,638)	\$ 303,451	
Balance July 1, 2002	<u>\$ 564,994</u>	<u>\$173,070</u>	<u>\$720,208</u>

4. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2003, the District had \$9,249 in undeposited cash on hand which is included in the fund balance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At June 30, 2003, the carrying amount of the District's deposits was \$9,621,984 and the bank balance was \$10,134,904. Of the bank balance, \$102,397 was covered by federal depository insurance and \$10,032,507 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counter-party, trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the District's name. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

<u>Investment:</u>	<u>Carrying Value</u>
STAR Ohio	\$4,015,973

5. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis while the 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, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. PROPERTY TAX (Continued)

The District receives property taxes from Greene 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2003 taxes were collected are:

	2003 First-Half Collections	
	Amount	Percent
Real Property		
Residential/Agricultural & Commercial/Industrial Public Utilities	\$510,022,180	89.31%
Tangible Personal Property		
General	\$ 61,044,025	10.69
Total Valuation	\$571,066,205	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.70	

6. DEBT OBLIGATIONS

A. Debt Obligations

Debt obligations of the District at June 30, 2003, consisted of the following:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
General Improvement Bonds				
Variable Interest Rate 4.4 – 6.4%	\$19,425,000	\$ 0	\$ 40,000	\$19,385,000
Energy Conservation Improvement Bonds				
Variable Interest Rate 3.5 – 4.6%	1,705,000	0	90,000	1,615,000
Energy Conservation Notes				
Interest Rate 5.28%	635,366	0	142,633	492,733
School Bus Acquisition Bond				
Variable Interest Rate 3.45 – 4.3%	745,000	0	95,000	650,000
School Improvement Bond				
Anticipation Note				
Interest Rate 2%	515,000	255,000	515,000	255,000
Total Debt Obligations	<u>\$23,025,366</u>	<u>\$ 255,000</u>	<u>\$ 882,633</u>	<u>\$22,397,733</u>

General improvement bonds issued August 1, 2000, with a variable interest rate of 4.4 – 6.40% will be paid from the debt service fund with the final maturity being during fiscal year 2027.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

Energy Conservation Improvement bonds were issued February 28, 2002 for \$1,705,000 at a variable interest rate of 3.5 – 4.6% for the purpose of the improvement and renovation of buildings. The bonds were issued for a twelve year period with a final maturity during fiscal year 2014.

Energy Conservation notes was issued on July 8, 1996, at an interest rate of 5.28% for the purpose of the improvement and renovation of buildings. The notes were issued for a ten year period with the final maturity during fiscal year 2007.

School Bus Acquisition bonds were issued December 30, 1998, at a variable interest rate of 3.45 - 4.3% for the purpose of purchasing school buses. The notes were issued for a ten year period with a final maturity during fiscal year 2009.

School Improvement Bond Anticipation Notes was first issued in 2001 and is renewed each year with the final installment due in 2004.

All debt issues will be retired from the Debt Service Fund

B. Future Debt Requirements

The annual requirements to amortize all debt outstanding as of June 30, 2003 are as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 788,566	\$ 1,191,385	\$ 1,979,951
2005	830,600	1,153,951	1,984,551
2006	860,600	1,115,808	1,976,408
2007	747,967	1,079,046	1,827,013
2008	770,000	1,045,214	1,815,214
2009-2013	3,880,000	4,682,470	8,562,470
2014-2018	4,090,000	3,582,266	7,672,266
2019-2023	5,150,000	2,272,831	7,422,831
2024-2027	5,280,000	628,763	5,908,763
Total	<u>\$22,397,733</u>	<u>\$16,751,734</u>	<u>\$39,149,467</u>

7. RISK MANAGEMENT

A. Public Liability

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District carried property and general liability insurance and boiler and machinery insurance.

Professional liability is protected by the Indiana Insurance Company, with \$1,000,000 each occurrence, and \$5,000,000 in annual aggregate limit. An additional "umbrella" policy has \$3,000,000 per occurrence and \$3,000,000 aggregate limit. The Superintendent, Treasurer, and Board President are bonded.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

The District contracted with Indiana Insurance Company for building and property insurance. Commercial property is insured at a limit of \$64,492,174 with a \$1,000 deductible on everything except computers, which have a \$250 deductible.

Automobile liability is also covered by Indiana Insurance Company for replacement cost with a \$250 deductible and combined single limit each accident of \$1,000,000.

B. Health Benefits

In an effort to curb health care spending, a Preferred Provider Organization (PPO) medical plan was established. This provides a network of physicians and hospitals through Flora Midwest. The employees may elect to utilize this network to reduce their out-of-pocket expenditures on health care. With this plan, the District and employees pay into the Employee Benefits Self-Insurance Internal Service Fund for family and individual coverage funded monthly. Dental coverage is also provided on a self-insured basis by the District with Bridgestone Americas holding, Inc. serving as the third party administrator for both health and dental coverage. The District is responsible for payment for all claim amounts in excess of the employee payment percentages established in the plan document. The District does have Stop Loss Insurance through American National Insurance Company with a \$100,000 deductible.

8. JOINTLY GOVERNED ORGANIZATIONS

A. Southwestern Ohio Educational Purchasing Council (SOEPC)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain reduced 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. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

B. Miami Valley Special Education Regional Resource Center

The Miami Valley Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives 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 38 members made up of the 38 superintendents, 6 parent mentors, 12 special education directors, and one university. Some entities have more than one voting delegate. Financial information can be obtained from Sharon Kindrid, at the Montgomery County Educational Service Center, 200 S Keowee Street, Dayton, Ohio 45402.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Southwestern Ohio Instructional Technology Association (SOITA)

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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 institutions. 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. One at-large non-public representative is elected by the non-public school SOITA members from within 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. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

D. Greene County Career Center

The Greene County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected Boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Greene County Career Center, Steve Sutcliffe, who serves as Treasurer, at 2960 W. Enon Rd., Xenia, OH 45385.

E. Metropolitan Dayton Educational Cooperative Association

The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties, and the Cities of Dayton, Troy, Fairborn, and Greenville. 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 school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. GROUP INSURANCE PURCHASING POOL

The District is a member of the Southwestern Ohio Educational Purchasing Council (SOEPC). The cooperative contracts with Comp Management to provide a insurance purchasing pool for workers compensation. The District is penalty rated due to a large number of claims and therefore does not receive the low rate. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

10. PENSION PLANS

A. School Employees Retirement System

The 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 State Statue Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$969,012, \$874,020, and \$797,910 respectively.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,838,288, \$2,661,108, and \$2,402,088 respectively.

11. POST RETIREMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District the amount to fund health care benefits equaled \$205,789 during the 2003 fiscal year. As of June 30, 2002, eligible benefit recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. The balance in the fund was \$3.011 billion at June 30, 2002.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

At June 30, 2003, the employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. For the District the amount to fund health care equaled \$ during the 2003 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777. At June 30, 2002 STRS had net assets available for payment of healthcare benefits of \$335.2 million.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Reserve	Capital and Maintenance Reserve	Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2002 Carryover			\$628,343
Current Year Set-Aside Requirement	\$755,052	\$755,052	
Qualifying Disbursements	\$1,004,225	\$4,214,540	
Balance Carried Forward to Future Fiscal Years	0	0	\$628,343

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is of the opinion that any current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations

14. SUBSEQUENT EVENTS

A. Fiscal Caution

The Ohio Department of Education performed a fiscal analysis of the District in November 2003, and has placed the District in fiscal caution effective February 13, 2004.

In Accordance with Section 3316.031(C) of the Ohio Revised Code, the District must submit a fiscal caution proposal that addresses the projected deficits for the 2004 and 2005 fiscal years. This proposal is due on April 23, 2004, and will include the elimination of approximately 43 teachers, 8 educational aides, 6 secretaries, 12 custodians/maintenance and 16 bus drivers.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. SUBSEQUENT EVENTS (Continued)

B. Special Audit

The Auditor of State is currently conducting a special audit of the District. The results of the audit cannot be determined at this time.

15. COMPLIANCE

The district was in non-compliance with the following Ohio Rev. Code budgetary laws:

<u>ORC Section</u>	<u>Violation</u>
5705.10:	Negative fund balances existed in three funds during the year.
5705.36(a)2:	Reduced certificate of estimated resources was not obtained.
5705.38:	Annual appropriations measure was not approved in a timely manner.
5705.39:	Appropriations exceeded estimated resources.
5705.40:	Appropriations measure provisions not followed.
5705.41(b)	Expenditures exceeded appropriations.
5705.412	Qualifying contract certificate of availability of funds was not completed.
5705.41(d)	Prior certification was not obtained for all expenditures prior to purchase commitments being entered into.

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture <i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A		\$82,861		\$78,833
National School Lunch Program	10.555	LLP4	\$356,133		\$356,133	
National School Lunch - Fruit and Vegetable	10.555	VGS1	14,786		14,786	
School Breakfast Program	10.553	05-PU	45,903		45,903	
Summer Food Service Program for Children	10.559	05-PU	11,631		11,631	
Total U.S. Department of Agriculture - Nutrition Cluster			428,453	82,861	428,453	78,833
U.S. Department of Education <i>(Passed through Ohio Department of Education)</i>						
Title 1, School Improvement	84.010	C1S1-01			71,029	
Title 1, Part A, ESEA		C1S1-02	228,103		234,555	
		C1S1-03	794,257		573,177	
Total Title 1			1,022,360		878,761	
Special Education Cluster:						
Special Education Grants to States	84.027	6BSF-01	48,262		198,915	
		6BSF-02	621,442		503,857	
Total Special Education Grants to States			669,704		702,772	
Special Education Preschool Grant	84.173	PGS1-01	19,109		19,144	
		PGS1-02	35,920		37,247	
Total Special Education Preschool Grant			55,029		56,391	
Total Special Education Cluster			724,733		759,163	
Safe and Drug Free Schools	84.186	DRS1-00			16,453	
		DRS1-02			22,260	
		DRS1-03	27,062		30,875	
Total Safe and Drug Free Schools			27,062		69,588	
Goals 2000 Continuous Improvement	84.276	G2S4-01			5,570	
		G2S4-01			18,000	
Total Goals 2000 Continuous Improvement					23,570	

(Continued)

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Eisenhower Professional Development State Grant, Title II, Part B	84.281	MSS1-98			5,014	
		MSS1-99			4,174	
		MSS1-00			278	
		MSS1-01			7,149	
		MSS1-02	8,344		16,911	
Total Eisenhower Professional Development State Grant			8,344		33,526	
Title VI, Innovative Education Program Strategies	84.298	C2S1-01			27,281	
		C2S1-02			34,532	
		C2-S1-03	33,986		33,986	
Total Title VI, Innovative Education Program Strategies			33,986		95,799	
Technology Literacy Challenge Fund Grant	84.318	RIS1-02			8,080	
		TJS1-03	21,728		21,578	
Total Technology Literacy Challenge Fund Grant			21,728		29,658	
Advanced Placement	84.330		100			
Class Size Reduction	84.340	CRSI-02	6,225		22,326	
Assistive Technology Program	84.352A	ATS2-02	4,460		4,460	
		ATS3-02	994			
Total Assistive Technology Program			5,454		4,460	
English Language Acquisition Grant	84.365	T3S1-03	18,522		15,346	
Improving Teaching Quality State Grants	84.367	TRSI-03	202,029		147,881	
Total U.S. Department of Education			2,070,543		2,080,078	
U.S. Department of Education (Direct Program)						
Impact Aid Grant	84.041	N/A	1,362,803		1,362,803	
Federal Emergency Management Agency (Passed through Ohio Emergency Management Agency)						
Public Assistance Grant	83.544	N/A			2,337	
Total Federal Financial Assistance			\$3,861,799	\$82,861	\$3,873,671	\$78,833

The accompanying notes to this schedule are an integral part of this schedule.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -- CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

We have audited the financial statements of Fairborn City School District, Greene County, (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 13, 2004, wherein we noted that the District prepared its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B), and which was qualified due to a lack of sufficient evidence supporting the disbursement activity of the Self Insurance Fund – Internal Service Fund Type and charges for services (food service) activity in the Enterprise Fund. We also indicated that there was substantial doubt about the District's ability to continue as a going concern. Except for our procedures relating to the Self Insurance Fund, and Enterprise Fund we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2003-001 through 2003-024. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 13, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-025 through 2003-038.

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**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-025 and 2003-26 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 13, 2004.

This report is intended for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 13, 2004



Auditor of State Betty Montgomery

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

Fairborn City School District
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Education:

Compliance

We have audited the compliance of Fairborn City School District, Greene County, (the District), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 13, 2004.

This report is intended for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 13, 2004

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Impact Aide CFDA # 84.041
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDINGS FOR RECOVERY

FINDING NUMBER 2003-001

Finding for Recovery – Yearbook Advisor

The High School Yearbook Club sold advertisements for inclusion in the yearbook. Club records report cash receipts of \$9,430 in cash and \$980 of gift certificates and coupons for these advertisements. The Treasurer's records reflected cash deposits of \$8,660. The disposition of the coupons and gift certificates was unknown and their \$980 value was not posted to the District's books. This resulted in total revenue not accounted for in the amount of \$1,750.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies being collected but unaccounted for is hereby issued against Advisor Ellen Shelley and in favor of Fairborn City School District's High School Yearbook Fund in the amount of \$1,750.

FINDING NUMBER 2003-002

Finding for Recovery – ROTC Advisors (Finding Repaid While Under Audit.)

The Reserve Officer Training Corps (ROTC) required student members to pay a \$25 fee. In the 2002-03 school year; \$6,150 in revenue was collected in fees for 246 ROTC members. The money was not paid into the District's treasury. The money was deposited in an outside bank account administered by the ROTC advisors. This resulted in revenue unaccounted for in the amount of \$6,150. The money was repaid, as evidenced by check # 817319409.

FINDING NUMBER 2003-003

Finding for Recovery – Title I Teacher

Jeri Moss's contracted salary for fiscal year 2002-03 was \$59,197.78. She was approved for ten extended days at \$323.48 per day for a total salary of \$62,432.58. Ms. Moss was paid for 20 extended days rather than the 10 worked. This resulted in an overpayment of salary in the amount of \$3,234.80.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jeri Moss and in favor of Fairborn City School District's Title I Fund in the amount of \$3,234.80.

FINDING NUMBER 2003-004

Finding for Recovery – Fairborn Athletic Booster Association

Numerous Fairborn City School athletic teams deposited monies from fundraising activities with the Fairborn Athletic Booster Association. These funds were collected under color of office, and as such, are public money, and should be included in the accounting records of the District. As of February 24, 2004, the Association held \$937.56 in their accounts from these activities.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public funds collected but unaccounted for is hereby issued against the Fairborn Athletic Boosters and in favor of the Fairborn City School District's District Managed Activity Fund in the amount of \$937.56.

FINDING NUMBER 2003-005

Finding for Recovery – SERS (School Employees Retirement System) withholding

The Board of Education approved a one year administrative contract for Pamela Gayheart as a Grant Writer/Public Relations position at their March 21, 2002, Board meeting. The contract was renewed for 1 year at the March 13, 2003, Board meeting. For the period of July 1, 2002 through January 31, 2004, the Board picked up 100% of Ms. Gayheart's employee portion of SERS. Article 16.02 of the Administrators Compensation and Benefit Provisions provides a list of administrators' whose share of SERS contributions on behalf of the covered administrators will be pickup 100% by the Board. Ms. Gayheart's position does not qualify for retirement pickup under this provision.

For FY03, the Board paid \$3,402.82 to SERS for employee contribution benefits on Ms. Gayheart's behalf. For the period of July 1, 2003 through January 31, 2004, the Board paid \$2,347.82 to SERS on Ms. Gayheart's behalf. This resulted in her being overpaid a total of \$5,750.64.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Pamela Gayheart and in favor of Fairborn City School District's General Fund for the amount of five thousand, seven hundred fifty Dollars and sixty four cents (\$5,750.64).

FINDING NUMBER 2003-006

Finding for Recovery – STRS (State Teachers Retirement System) withholding

Billie Harris is employed by the Board as an Instructional Supervisor. For the period September 11, 2000 through June 30, 2002, the Board picked up 25% of her employee contributions to STRS. Article 16.01 of the Administrators Compensation and Benefit Provisions provides a list of administrators' whose portion of STRS contributions on behalf of the covered administrators will be picked up at 25% by the Board. This position did not qualify for retirement pickup under this provision until the 10/10/02 revision, retroactive to July 1, 2002, when the position of Instructional Supervisor was added to the list of covered administrators.

For the period of September 11, 2000 – June 30, 2002, the Board paid \$2,558.53 to STRS on Mrs. Harris behalf.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Billie Harris and in favor of Fairborn City School District's General Fund for the amount of two thousand, five hundred fifty-eight Dollars and fifty-three cents (\$2,558.53).

FINDING NUMBER 2003-007

Finding for Recovery – STRS withholding and Payroll overpayment

Deborah Roshto was employed by the Board as an Instructional Supervisor on September 11, 2000. For the period of September 11, 2000 through June 30, 2002, the Board picked up 25% of her employee contribution of STRS. Article 16.01 of the Administrators Compensation and Benefit Provisions provides a list of administrators' whose portion of STRS contributions on behalf of the covered administrators will be picked up at 25% by the Board. This position did not qualify for retirement pickup under this provision until the 10/10/02 revision, retroactive to July 1, 2002 when the position of Instructional Supervisor was added to the list of covered administrators.

For the period of September 11, 2000 – June 30, 2002, the Board paid \$2,575.06 to STRS on her behalf.

In addition, Ms. Roshto was paid at step 27, instead of step 21, to which she was entitled, in the certified personnel pay schedules. This resulted in Ms Roshto receiving \$1,689.97 for wages not entitled to receive.

**FINDING NUMBER 2003-007
(Continued)**

The overpayment in wages of \$1,689.97 and the payment of \$2,575.06 to STRS by the Board for employee contribution benefits Ms. Roshto was not entitled to receive resulted in her being overpaid four thousand, two hundred sixty-five Dollars and three cents (\$4,265.03).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deborah Roshto and in favor of Fairborn City School District's General Fund for the amount of four thousand, two hundred sixty-five Dollars and three cents (\$4,265.03).

FINDING NUMBER 2003-008

Finding for Recovery – STRS withholding

Ernest Sheeler Sr. was employed by the Board as a social worker. The Board picked up 50% of his employee contributions to STRS. Article 16.01 of the Administrators Compensation and Benefit Provisions provides a list of administrators' whose portion of STRS contributions on behalf of the covered administrators will be picked up 50% by the Board. His position did not qualify for retirement pickup under this provision.

For the period of January 21, 2003 – January 31, 2004, the Board paid \$2,401.13 to STRS on his behalf. This resulted in him being overpaid for Board pickup of employee STRS contributions benefits not entitled to receive in the amount of two thousand, four hundred one dollars and thirteen cents (\$2,401.13).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Ernest Sheeler Sr. and in favor of Fairborn City School District's General Fund for the amount of two thousand, four hundred one Dollars and thirteen cents (\$2,401.13).

FINDINGS FOR ADJUSTMENT

FINDING NUMBER 2003-009

Finding for Adjustment - Construction Fund Interest

Ohio Rev. Code Section 113.09 states that investment earnings should be credited to the District's General Fund, unless the Board of Education adopts a resolution in accordance with Ohio Rev. Code Section 3315.01(A). This resolution permits the Treasurer of the district to credit the earnings made on the investment of the principal of the moneys specified in the resolution to the fund from which the earnings arose, or any other fund of the district as the board specifies in its resolution.

The Treasurer credited investment earnings to the Building Repair Project Fund however the Board did not approve a resolution allowing this fund to receive interest.

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the Building Repair Project Fund in the amount of \$92,222 and in favor of the General Fund.

FINDING NUMBER 2003-010

Finding for Adjustment - Overpayment on Construction Project

During FY02 Chapel Electric Company over billed the District for a construction project in the amount of \$56,454. Payment was expensed from the Capital Projects Fund. Chapel Electric repaid the \$56,454 May 2002. However the revenue was posted to the General Fund. As of November 13, 2003, the Capital Projects Fund had not been repaid by the General Fund.

Failure to properly record revenue resulted in an understatement of the Capital Projects' fund balance and an overstatement of the General Fund balance.

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the General Fund in the amount of \$56,454 and in favor of the Capital Projects Fund.

FINDING NUMBER 2003-011

Finding for Adjustment-Nonexpendable Trust Fund Principal

When assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. A "nonexpendable" fund is used when the District is under an obligation to maintain the trust principal. The District had four nonexpendable trusts, with cash balances less than the corpus/principal of the trust documentation on file at the District. Disbursements of trust principal were made from these funds. Violation of the trusts could result in the District owing money back to the grantor.

<u>Trust Fund</u>	<u>Principal</u>	<u>Fund Balance</u>	<u>Variance</u>
Vera Schneider	\$500,000	\$476,185	\$(23,815)
Bakers Teacher Excellence	\$ 20,000	\$ 18,992	\$ (1,008)
Teachers Grants	\$10,000	\$ 9,416	\$ (584)
ROTC Trust	\$10,000	\$ 7,763	\$ (2,237)

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the General Fund in the amount of \$27,644 and in favor of the Nonexpendable Trust Fund.

NONCOMPLIANCE – OHIO REVISED CODE

FINDING NUMBER 2003-012

Ohio Rev. Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

FINDING NUMBER 2003-012
(Continued)

The Junior High School collected money for an out-of-town trip. This money was not paid into the District's treasury. The ROTC collected money from students for fees, trips, etc. The money was deposited into a checking account not affiliated with or authorized by the District. Athletics had fund raisers for uniforms and equipment which was paid to the Athletic Boosters instead of deposited into the District's Treasury. The Athletic Boosters also sold season passes, good for admission to all sporting events. The Boosters retained all revenue from these sales.

All monies collected by advisors, teachers, etc. from students should be deposited with the treasurer and paid into the appropriate fund and special cost center. Any unauthorized accounts should be closed and the balance should be deposited into the District's treasury.

FINDING NUMBER 2003-013

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

The District should prepare their financial statements in accordance with GAAP.

FINDING NUMBER 2003-014

Ohio Const. Art. VIII, section 4, states that, "The credit of the state shall not, in any manner, be given or loaned to, or in aid of, any individual association or corporation whatever; nor shall the state ever hereafter become a joint owner, or stockholder, in any company or association in this state, or elsewhere, formed for any purpose whatever".

The District had 32 shares of McDonald's stock which was not an allowable investment. Further, the \$723 value of the stock was not posted to the District's books.

The Treasurer should record the stock on the District's books at the June 30, 2003 valuation. To assist in meeting compliance, the Board should authorize the Treasurer to sell the stock.

FINDING NUMBER 2003-015

Ohio Rev. Code Section 135.22 states that effective January 1, 1997, subdivision treasurers must complete annual continuing education programs provided by the Treasurer of State. The Treasurer of State issues a certificate indicating that the treasurer has successfully completed the continuing education program. The continuing education requirement does not apply to a subdivision treasurer who annually provides a notice of exemption to the Auditor of State, certified by the Treasurer of State, that the treasurer is not subject to the continuing education requirements because the treasurer invests or deposits public funds in the following investments only:

FINDING NUMBER 2003-015
(Continued)

- (1) Interim deposits pursuant to § 135.14 (B)(3);
- (2) STAR Ohio pursuant to § 135.14(B)(6);
- (3) No-load money market mutual funds pursuant to § 135.14 (B)(5).

Although the Treasurer had investments other than those indicated above, he did not attend the annual continuing education program provided by the Treasurer of State.

The District should review current training and reporting requirements and require the Treasurer to attend the annual continuing education program or file the annual exemption notice with the Treasurer of State, as appropriate for the District's investment portfolio.

FINDING NUMBER 2003-016

Ohio Rev. Code Section 149.351 states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42, Revised Code.

Supporting documentation for the following was not made available by the District during audit:

- Contract bidding
- Approved Appropriations
- Certain Trust Agreements
- Junior High and High School Yearbook sales
- High School parking fees
- High School student schedules
- Athletic reserve seating ticket sales, checking account expenditures and bank reconciliations
- Food Service

The Board should develop policies and procedures for the retention of records and periodically monitor that required records are retained.

FINDING NUMBER 2003-017

Ohio Rev. Code Section 5705.10 indicates that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates money from one fund was used to cover the expenses of another fund. The District had several Treasurers during the reporting period which may have contributed to the March 31, 2003 deficit in the following funds:

- Title VI-B (Fund 516) (\$224,717)
- Title I (Fund 572) (\$114,823)
- Miscellaneous Federal Grants (Fund 599) (\$131,990)

To improve compliance, the Board of Education and the Treasurer should closely monitor revenues, expenditures and fund balances. When necessary, the Board could approve advances or transfers to avoid negative fund balances. The District may refer to Auditor of State Bulletin 97-003 for guidance on the accounting treatment and approval process of advances.

FINDING NUMBER 2003-018

Ohio Rev. Code Section 5705.36 (A)2, requires the District to obtain a reduced amended certificate of estimated resources when it determines that estimated receipts will exceed actual receipts. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. The District Managed Activities fund was in violation of this requirement.

When the District determines budgeted receipts are greater or less than actual revenue, a reduced or increased amended certificate of estimated resources should be obtained, and if necessary, a corresponding reduction or increase should be made in the appropriations.

FINDING NUMBER 2003-019

Ohio Rev. Code Section 5705.38, states that on or about the first day of each year, the taxing authority of each subdivision shall pass an appropriation measure. If the taxing authority desires to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission, it may pass a temporary appropriation measure for meeting the ordinary expense of the taxing unit until not later than the first day of October of the current year. Ohio Rev. Code Section 5705.39 states that no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The District did not pass permanent appropriations until October 10, 2002, and did not file their appropriation resolution with the County Auditor until January 28, 2003.

The District should adopt permanent appropriations within the time allowed by the statute and file with the County Auditor in a timely manner.

FINDING NUMBER 2003-020

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund should not exceed the total estimated resources as certified by the County Budget Commission. As of June 30, 2003, appropriations exceeded total estimated resources for the following funds:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Estimated Resources</u>	<u>Variance</u>
Extended Learning	\$57,398	\$11,452	(\$45,946)
Eisenhower	\$45,614	\$15,849	(\$29,765)
Miscellaneous Federal Grants	\$425,524	\$22,420	(\$403,104)
Debt Service	\$2,283,239	\$1,975,232	(\$308,007)
School Net	\$89,488	\$6,021	(\$83,467)
Self Insurance	\$2,722,921	\$2,000,000	(\$722,921)

Other immaterial instances of non-compliance were also noted. The District should implement policies and procedures to prevent appropriations from exceeding the amounts certified as available.

FINDING NUMBER 2003-021

Ohio Rev. Code Section 5705.40, states any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

The Board approved the annual appropriation measure by resolution and therefore should have approved all amendments in the same manner.

**FINDING NUMBER 2003-021
 (Continued)**

The Board allowed the Treasurer to amend appropriations as needed at the end of the fiscal year; however the Board did not approve the specific amendments made. The Board should approve all appropriation amendments by acknowledging the funds, amounts, and dates of amendments.

FINDING NUMBER 2003-022

Ohio Rev. Code Section 5705.41 (B), states that a political subdivision shall not expend funds until they have been appropriated. The District's expenditures at the end of April and June 2003 exceeded the prior year encumbrances plus appropriations at the fund, function, special cost center level, as indicated below. The Board approves an annual appropriation measure; however the Board does not indicate in the minutes or in a policy the level at which the appropriation measure is passed. Failure to establish a reporting level for appropriations resulted in confusion as to the legal level of control. The fiscal year 2003 appropriation resolution was remitted to the County Auditor at the fund, function, special cost center level.

April 2003:

Fund	Function	SPCC	Appropriations	Expenditures	Variance
001	2200	0000	\$1,497,693	\$1,795,636	(\$ 297,942)
001	2300	0000	20,235	44,035	(23,800)
001	2700	0000	4,214,772	4,252,105	(37,333)
001	2800	0000	2,000,202	2,026,922	(26,720)
001	2900	0000	597,943	796,739	(198,796)
516	2200	9202	93,291	103,810	(10,519)
599	1100	9203	156,160	160,413	(4,253)
432	2100	9197	1,584	2,364	(781)
002	6100	9198	304,274	473,691	(169,417)
458	1100	9199	1,156	3,600	(2,444)
006	3100	0000	1,297,589	1,333,693	(36,104)
024	2900	9200	2,722,921	3,795,862	(1,072,941)

June 2003:

001	1100	0000	\$17,654,129	\$19,390,509	(\$1,736,380)
001	1200	0000	3,101,259	3,455,774	(354,515)
001	1400	0000	97,694	98,316	(622)
001	2200	0000	1,497,693	2,111,020	(613,326)
001	2300	0000	20,235	51,949	(31,714)
001	2400	0000	2,625,369	3,074,440	(449,071)
001	2700	0000	4,214,772	4,341,146	(126,374)
001	2800	0000	2,000,202	2,290,706	(290,504)
001	2900	0000	597,943	803,774	(205,831)
001	4600	0000	23,392	26,235	(2,843)
587	2200	9202	9,930	19,109	(9,179)
432	2100	9197	1,584	1,739	(156)
002	6100	9198	304,274	418,131	(113,857)
007	3200	9010	821	1,200	(379)
006	3100	0000	1,297,589	1,328,259	(30,670)

FINDING NUMBER 2003-022
(Continued)

The Board should indicate in the minutes or in a policy the legal level of budgetary control for the District. The District should develop policies and procedures to ensure expenditures do not exceed appropriations. Budget versus actual financial information should be regularly reviewed at the legal level of control

FINDING NUMBER 2003-023

Ohio Rev. Code Section 5705.412, as amended, in effect from June 30, 2000, provides: No school district shall adopt any appropriation measure, make any qualifying contract, or increase during any school year any wage or salary schedule unless there is attached thereto a certificate, signed as required by this section, that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other sources available to the district at the time of certification, are sufficient to provide the operating revenues necessary to enable the district to maintain all personnel and programs for all the days set forth in its adopted school calendars for the current fiscal year and for a number of days in succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year.

The certificate shall be signed by the treasurer and president of the board of education and the superintendent of the school district, unless the district is in a state of fiscal emergency declared under Chapter 3316 of the Revised Code, in which case the certificate shall be signed by a member of the district's financial planning and supervision commission who is designated by the commission for this purpose.

The law also provides, "every qualifying contract made or wage or salary schedule adopted or put into effect without such a certificate shall be void, and no payment of any amount due thereon shall be made."

The penalty for anyone who knowingly executes an obligation, or authorizes the expenditure of public funds, contrary to Ohio Rev. Code Section 5705.412, is liable for the full amount paid on the obligation, up to \$10,000.

The 412 certificates for the District's annual appropriation measure and negotiated agreements were not signed. To improve compliance and to prevent payments from being voided, the Treasurer, Board President, and Superintendent should sign 412 certificates as required. This matter has been referred to the District's legal counsel.

FINDING NUMBER 2003-024

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant from the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

**FINDING NUMBER 2003-024
(Continued)**

Amounts of less than \$3,000 may be paid (the District Board policy limits the amount to \$1,000) by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket certificate** – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 24 percent of expenditures tested and there was no evidence the District followed the aforementioned exceptions. The District had \$547,720 in unrecorded encumbrances at fiscal year end and had blanket purchase orders, which exceeded the allowable three months. Failure to certify the availability of funds could result in spending in excess of appropriations and/or fund deficits.

To improve controls over disbursements and to help reduce the possibility of exceeding budgetary spending limitations, the Treasurer should certify funds are or will be available prior to an obligation.

MATERIAL WEAKNESSES

FINDING NUMBER 2003-025

Lack of Service Organization Auditing Procedures

Statement on Auditing Standard (SAS) No. 55, *Consideration of Internal Control in a Financial Statement Audit*, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. In certain situations, an entity’s internal control is not limited to the controls in place within the entity’s physical capacity or internal operations that extend beyond the entity. This can occur if an entity uses another organization to perform services that affect the entity’s ability to record, process, summarize, and report financial information in its financial statements. SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, refers to these organizations as service organizations, of which the School District contracted with Bridgestone Firestone Information Systems (BFIS), a third party administrator, to process significant medical and dental claims incurred during the audit period.

We were unable to secure a SAS No. 70 report nor perform procedures at the third party administrator to substantiate that controls related to the processing of financially material transactions were operating effectively. This represented \$1,890,587 of claim expenses, as processed by Bridgestone Firestone Information Systems. The lack of an audit of BFIS increases the risk that problems or issues an audit would normally detect could remain undetected, thus causing the School District to pay for claims that should not have been incurred nor recorded.

The District discontinued the self insurance program subsequent to fiscal year end, and instituted conventional insurance coverage. In the Future, the District should require any third party administrators to obtain SAS 70 reports on their controls, before contracting with them.

FINDING NUMBER 2003-026

Food Service Revenue

Lunchroom receipts are entered into a computerized accounting system which tracks revenue by category and student account balances. Variances to bank deposits are also identified by the system. Each building submits daily cashier reports which state daily sales by category, total sales, bank deposit and variances. The Food Service Supervisor verifies bank deposits per the reports to the deposit slips but does not investigate any unusual variances.

The server which held all computer records was stolen from the District on August 11, 2003. The records on the server were not backed up and hard copies of reports were only retained for 4 months of the audit period. For the 4 months available, variances were identified for each day, with 9 of the days' variances being over \$100. The theft and lack of backup resulted in the loss of student account activity after April 2003. At a minimum, the system should be backed up weekly off-site.

The Food Service Supervisor should monitor sales reports and report explanations for any variances. Management should review variances monthly and make the determination as to acceptability of the explanation for the variance.

REPORTABLE CONDITIONS

FINDING NUMBER 2003-027

Reclassification of Funds

When assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. An "expendable" trust fund is used when the District is not under an obligation to maintain the trust principal. Board Resolution 265-90, dated September 11, 1990 appropriately designated the Mervil Whitt Scholarship fund as expendable trust fund 007-9003. Documentation from the donor did not restrict the use of the principal. Contrary to this resolution, the District posted the Mervil Whitt Scholarship fund as nonexpendable trust fund 008-9003.

Failure to properly classify this fund as an expendable trust could result in its not being used for the-original purpose of the trust.

At June 30, 2003 the Mervil Whitt Trust fund's balance was \$9,905. To uphold the intention of the donor, this amount should be reclassified as Expendable Trust Fund 007-9003, with no obligation to maintain the principal.

FINDING NUMBER 2003-028

Purchasing Policies and Procedures

The District's purchasing policies and procedures state the following:

- Requisitions are approved by principals.
- Purchase orders are prepared by principals.
- Purchases in excess of \$1,000 are approved by Administrative Assistant-Business Affairs, prior to purchase order preparation.
- Purchase orders are reviewed and approved by Administrative Assistant-Business Affairs.
- Purchase orders are approved and certified by Treasurer.
- Mileage is reimbursed at the Board-approved rate or within the limitations of Ohio Law.

FINDING NUMBER 2003-028
(Continued)

During our testing of the expenditure cycle, we noted the following inconsistencies with the above policies:

- Requisitions were approved by the child nutrition services director and other supervisors as well as principals.
- Purchase orders were prepared by accounts payable clerks.
- Purchases over \$1,000 were not approved prior to preparation.
- Purchase orders were reviewed and initialed by the Superintendent however, we noted several instances when this procedure did not occur.
- The Board did not approve the mileage reimbursement rate.
- Forms used by District did not conform to approved policies.

Failure to follow the Board approved policies and procedures resulted in improperly approved expenditures, excessive and inappropriate reimbursements, and inadequate accountability.

The District should review, amend as appropriate, and regularly monitor its purchasing policies and procedures to incorporate the activities that are actually occurring. The policies and procedures should establish a reimbursement policy that specifically details what is reimbursable, how much is reimbursable, and the required forms to submit. By amending purchasing policies and procedures, the District should be able to improve financial reporting and accountability, decrease unnecessary and improper reimbursements, and increase control over expenditure approvals.

FINDING NUMBER 2003-029

Reimbursements

The District reimburses employees for mileage, work-related travel, conferences, and other work-related expenditures. During fiscal year 2003, the District reimbursed employees over \$100,000 for these types of expenditures.

During our test of reimbursement expenditures, we noted the following:

- The District's reimbursement policy was vague and did not always agree with the District's travel forms
- Reimbursements were made for several meals without itemized receipts
- Reimbursed hotel and meal costs exceeded the maximum allowed on the District travel form
- Shuttle expenses were paid without verification of cost.
- Reimbursements were made for meals during normal work hours contrary to the administration master contract.

To improve compliance with District policies and to prevent unnecessary expenditures, the District should require itemized receipts for all reimbursable items and follow District guidelines for hotel and meal maximum reimbursements.

FINDING NUMBER 2003-030

High School Yearbook

The following weaknesses were noted when reviewing Yearbook records:

- Advertising contracts were not always marked paid.
- Contracts did not consistently include the date, check number and amount paid.
- Gift certificates/coupons from restaurants, florist, beauty salons, etc. were accepted in lieu of payment but not turned into the District.
- Receipts were not written for all money collected.
- The order forms from the sale of novelty items did not reflect credits for returned items.
- Order forms were not marked paid, did not include the date or amount paid, and were not updated in a timely manner.

These weaknesses could result in the loss of revenue to the Yearbook Club. To improve cash controls:

- Receipts should be written for all money collected.
- Advertising contracts should be identified as paid, with the date and amount included.
- Order forms should reflect all changes.
- The Board should adopt a policy on the acceptance and accounting treatment of payments in lieu of cash.

FINDING NUMBER 2003-031

Student Activities and Principal Funds

The following weaknesses or errors were noted when testing the Principal's Fund and Student Activities:

- Sales Potential Forms were not completed which resulted in several fundraisers losing money.
- The Board did not follow their own policy and have student activity clubs submit budget and purpose statements for approval.
- The student activity clubs, athletic director or principals did not receive a monthly detailed financial report showing revenue and expenditures for their activity.
- Five Point Elementary School's store sold supplies to students; a physical inventory count was not completed at the beginning or ending of the school year.
- The Junior High Principal had a candy/novelty sale. The amount collected from students disagreed with the total on the order forms for 23 out of 45 students tested. Neither returns nor additions were recorded on the student's order forms.
- Receipts were not written by advisors for all money collected from students;
- ROTC and Junior High students took an out of state trip to Washington DC that was not approved by the Board.
- The High School collected tuition money for night school which was deposited to the Principal's Fund, but night school teachers were paid from the General fund.
- The High School and Junior High School received a 2 year Discovery Grant from Wright State University. \$5,941 of the grant was posted to the High School Principal Fund instead of the Junior High School Principal Fund.

The above weaknesses and errors could result in a misstatement in the financial statements, money used for disallowed expenditures, and misappropriation of funds.

**FINDING NUMBER 2003-031
(Continued)**

The following actions should be taken to provide accountability over Student Activity and Principals' funds.

- The Board should require student activity clubs, athletic and principal funds to submit a purpose statement and budget for approval each year.
- At the beginning of each fundraiser, a Sales Potential Form should be completed and submitted for approval. At the conclusion of the fund raiser, the bottom half should be completed and submitted to the Treasurer's office to verify against their records for accuracy. The form should also be reviewed to determine if a profit is being made and if not, corrective action should be taken.
- The Treasurer should give each advisor, principal and athletic director a detail financial report each month to reconcile to their activity's records.
- A receipt should be written for all money collected.
- The Board should approve all out-of-town or overnight trips.
- School buildings that have school stores should take a physical inventory at the beginning and end of each school year. Records should be kept of the beginning inventory, additional items purchased and the ending inventory. The records should be reconciled at year end.
- Students should sign or initial the order blank when merchandise is received. The order forms should be adjusted, as needed, to account for returns and additions which the student should initial or sign indicating his agreement to the changes.
- The High School Principal Fund should reimburse the Junior High School Principal Fund for the \$5,941 received from the Discovery Grant for stipends that were charged to the Junior High Principal Fund.
- Expenditures should follow the revenue, if revenue collected is posted to one fund the expenditures should be paid from the same fund.

FINDING NUMBER 2003-032

Payroll Calculations

Salary errors were noted for numerous employees. An incorrect annual salary was used for employees resulting in teachers being underpaid. Other errors were caused by incorrect extended service day payments, incorrect daily rate calculations, and inappropriate or inaccurate retirement withholdings. These errors resulted in salary over and underpayments.

The District should implement written procedures for calculations of annual salary, extended time, daily rate, and clarify retirement benefits by position. The District should also review payrolls for other errors, and make corrections as needed.

FINDING NUMBER 2003-033

Monthly Bank to Book Reconciliations

The payroll and general checking account were not in balance for several months. Known reconciling bank and posting errors were brought forward month to month. Both accounts also had unresolved reconciling variances between the bank and the books which carried forward each month. Petty cash accounts were not reflected accurately on the reconciliations.

FINDING NUMBER 2003-033
(Continued)

Failure to resolve monthly reconciliation problems could result in a compounding of errors or result in misappropriation of assets.

Reconciliation discrepancies should be resolved as soon as the monthly bank to book reconciliation is completed and all petty cash accounts should be reconciled to the book balances. The Treasurer should review the general and payroll checking account reconciliations, post any known errors and make an adjusting entry for the unknown variance amount to balance the accounts. Variances between the books and the bank should be resolved immediately.

FINDING NUMBER 2003-034

Athletic Activity Checking Account

The following weaknesses associated with the athletic activity checking account were identified:

- There was no policy establishing allowable or maximum expenditures.
- The Athletic Director was not on the bank signatory card but was writing checks which were accepted by the financial institution.
- A prior interim treasurer was the only signatory on the bank card.
- The Board did not approve the ticket workers or their rate of pay.
- Bank reconciliations were not available and support documentation was not maintained for expenditures paid from the account.
- Referee fees, which are allowable expenditures, were not consistent with league approved rates.
- Total of check amounts disagreed to the reimbursement request amounts.

In part, these weaknesses resulted in the use of the athletic activity checking account to make unallowable expenditures and circumvent the purchase order process.

To assist in preventing future occurrences of the above:

- The checking account should be reconciled monthly by the Treasurer.
- A policy should be established by the Board to include the maximum expenditure amount allowed, the type of expenditures allowed, and the personnel authorized to sign checks. The signature card at the bank should be changed to reflect the Board authorized signatory.
- All checks should be signed by both the Treasurer and the Athletic Director.
- The Board should approve the ticket workers and establish a rate of pay. The workers should be placed on the payroll system and the Athletic Director should submit the days worked or the amount owed bi-weekly to the payroll clerk.
- The Athletic Director should submit a monthly revenue and expenditure report to the Treasurer for review.
- The Treasurer should replenish the account monthly after the bank to book reconciliation is completed, and support documentation should be submitted and retained. The checking account balance plus expenditures should not exceed the maximum limit set by the Board.
- Officials should be paid only the amount on their contract. Officials' contracts should be retained and turned into the Treasurer's office with the request for reimbursement.

FINDING NUMBER 2003-035

Athletic Season Passes and Ticket Sales

Season passes were sold by the Athletic Department. The Department did not maintain accountability over the number of season passes sold or to whom the pass was sold.

Failure to maintain a list of season passes sold and control over gate receipts could result in misappropriation of revenue.

To improve internal controls over season pass sales, the following procedures should be implemented:

- Season passes should be prenumbered. A list should be maintained of all purchasers.
- Season pass holders should sign in at the gate to prevent reuse of passes at the same event.

The review of gate sales revealed that controls could be strengthened by implementing the following procedures:

- Two people should be at each ticket gate - one to sell the ticket and one to collect the revenue.
- At the end of the ticket sales, a third person should count the gate receipts.
- The Ticket Accountability Report should be signed by the person collecting money at the gate and by the person counting the money.
- Gate access should be controlled for all events to prevent unauthorized entry.

FINDING NUMBER 2003-036

Classroom Materials and Fees Procedures

The District charges classroom fees for each grade based on consumable products utilized in classes taken. During testing of classroom materials and fees, weaknesses were noted in the fee setting and collection process:

- The Board did not approve the fee schedule. Each school determined the fees charged.
- There were no approved or consistent cash collection procedures.
- Not all teachers and/or secretaries prepared receipts for students or parents.
- The District computerized accounting system was not uniformly used to track fee payments and accounts receivable.
- Student accounts were written off without formal approval or policy.
- The schools, on average, did not collect 20 percent of the fees due; and
- The Junior High School handbook fee schedule was not followed. Contrary to the handbook, certain class fees were not charged.

The District should review its policies and procedures for classroom materials and fees. The revised policies and procedures should incorporate the following:

- Board approval of all fees
- Specification of persons permitted to collect money
- Pre-numbered receipts for all money received
- Utilization of MDECA fee system
- Board approval of waived fees
- Necessity of fee collections, and
- Revised discipline procedures for unpaid fees.

**FINDING NUMBER 2003-036
(Continued)**

By following the procedures indicated above the District will improve consistency among schools for fee collection procedures, ensure the proper fees are being charged, decrease loss of fees, improve tracking of fee obligations, and increase revenues.

FINDING NUMBER 2003-037

Athletic Booster Deposits

The District should be responsible for the sale of all tickets and season passes to sporting events. All revenue collected on behalf of athletic teams should be deposited with the District Treasurer. The Athletic Booster Club printed and sold season passes to District athletic events at a discounted rate. Revenue from these sales, amounting to \$4,750, was not deposited with the District Treasurer, but was used to benefit the District at the Booster's discretion. Had the District sold these passes directly, it would have received \$10,375.

In addition, numerous coaches conducted fund raisers and also deposited monies collected with the Athletic Boosters and not with the District Treasurer.

The Athletic Department should be responsible for the sale of all season passes and the proceeds should be deposited in the District's treasury. All monies collected by a coach should be deposited with the District Treasurer and posted to an individual special cost center in the Athletic Fund.

FINDING NUMBER 2003-038

Approval of Advances

Advances of funds are intended to temporarily reallocate cash from one fund to another with the intention of repayment. The District reported the following advances in fiscal year 2003:

- | | |
|------------------------------|-----------|
| • General Fund Advance Out | \$124,536 |
| • Special Revenue Advance In | 98,329 |
| • Agency Fund Advance In | 26,207 |

The Board did not approve the advances until July 2003 of the subsequent fiscal year. The recorded approval was not made by resolution nor did it state the purpose of the advance or the timeframe for repayment. To improve accountability to the public, the Board should formally approve advances by resolution prior to the advance transaction. The resolution should include the following:

- Statement that the transaction is an advance
- Names of the funds involved
- Amount
- Purpose and time frame for repayment
- Type of funds permitted for repayment

The District should refer to Auditor of State Bulletin for guidance on the accounting treatment and approval process for advances.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Using tickler files to file final expenditure reports timely	Yes	



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FAIRBORN CITY SCHOOL DISTRICT

GREENE 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 27, 2004**