



**Auditor of State
Betty Montgomery**

**FAIRFIELD LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fairfield Local School District
Highland County
11611 State Route 771
Leesburg, Ohio 45135

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 1, 2006

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As management of the Fairfield Local School District, we offer readers of the Fairfield Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2005. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

Financial Highlights

The assets of the School District exceeded its liabilities at June 30, 2005 by \$16,754,456. Of this amount, \$152,523 may be used to meet any of the School District's ongoing financial obligations.

In total, net assets decreased by \$488,281 during fiscal 2005.

General revenues accounted for \$6,140,146 or 84 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants, contributions, and interest accounted for \$1,177,053 or 16 percent of total revenues of \$7,317,199.

The School District had \$7,805,480 in expenses; 15 percent of these expenses were offset by program specific charges for services and sales and operating grants, contributions, and interest.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, or an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column.

Reporting the Fairfield Local School District as a Whole

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2005. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Fairfield Local School District
Management's Discussion and Analysis
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Unaudited

These two statements report net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

All of the School District's programs and services provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

Reporting the Fairfield Local School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds which are the General Fund and the Debt Service Fund.

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

Fiduciary Funds - The School District's fiduciary funds are a private purpose trust fund and an agency fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2005 and 2004:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$2,856,612	\$2,840,006
Capital Assets, Net	18,264,882	18,803,494
Total Assets	21,121,494	21,643,500
Liabilities		
Long-Term Liabilities	(2,359,112)	(2,477,567)
Other Liabilities	(2,007,926)	(1,923,196)
Total Liabilities	(4,367,038)	(4,400,763)
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,999,882	16,453,494
Restricted	602,051	641,509
Unrestricted	152,523	147,734
Total Net Assets	\$16,754,456	\$17,242,737

Table 1 is a comparison of governmental activities as of June 30, 2005 and 2004. Total net assets decreased primarily due to a decrease in invested in capital assets (net of related debt issued to acquire the assets). Acquisitions in the amount of \$171,659 were not enough to cover depreciation of \$709,737. Capital assets are used to provide services to students and do not represent assets that may be used for future spending. Restricted net assets decreased due to the closeout of several grants during the year. Unrestricted net assets increased due to a decrease in expenses for materials and supplies. This year the School District did not purchase supplies for the 2006 fiscal year until after the close of the 2005 fiscal year.

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 2)
Change in Net Assets

	2005	2004
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$444,818	\$453,980
Operating Grants, Contributions, and Interest	732,235	640,620
Capital Grants and Contributions	0	21,625
Total Program Revenues	<u>1,177,053</u>	<u>1,116,225</u>
General Revenues:		
Property Taxes	1,402,767	1,454,651
Grants and Entitlements not Restricted to Specific Programs	4,548,583	4,267,855
Gifts and Donations	12,896	1,800
Investment Earnings	28,549	8,514
Miscellaneous	145,164	114,513
Gain on Sale of Capital Assets	2,187	0
Total General Revenues	<u>6,140,146</u>	<u>5,847,333</u>
Total Revenues	<u>7,317,199</u>	<u>6,963,558</u>
Program Expenses:		
Instruction		
Regular	3,097,722	2,965,785
Special	524,375	477,980
Vocational	245,690	202,012
Support Services		
Pupils	310,588	260,203
Instructional Staff	669,507	639,112
Board of Education	52,914	8,632
Administration	761,742	729,855
Fiscal	333,346	320,091
Business	40,552	38,526
Operation and Maintenance of Plant	659,238	649,632
Pupil Transportation	499,008	461,717
Central	18,869	14,264
Operation of Non-Instructional Services:		
Other	4,176	4,117
Food Services	316,207	297,639
Extracurricular Activities	154,327	135,085
Interest and Fiscal Charges	117,219	123,458
Total Expenses	<u>7,805,480</u>	<u>7,328,108</u>
Decrease in Net Assets	<u>(\$488,281)</u>	<u>(\$364,550)</u>

Operating grants, contributions, and interest increased due to an increase in revenues relating to the Special Education grant. Property tax revenue decreased due to the phase out of tangible personal property tax. Grants and Entitlements revenue increased due to an increase in State foundation monies received during the current year. Regular Instruction increased due to the hiring of additional teachers and related benefits. Special Instruction and Vocational Instruction expenses increased due to additional programs.

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The statement of activities shows the cost of program services and the charges for services and sales and operating grants, contributions and interest offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Instruction	\$3,867,787	\$3,645,777	\$3,180,553	\$2,972,142
Support Services	3,345,764	3,122,032	3,153,586	2,991,231
Operation of Non-Instructional Services	320,383	301,756	79,168	60,611
Extracurricular Activities	154,327	135,085	97,901	78,583
Interest and Fiscal Charges	117,219	123,458	117,219	123,458
Total Expenses	<u>\$7,805,480</u>	<u>\$7,328,108</u>	<u>\$6,628,427</u>	<u>\$6,226,025</u>

The School District's Funds

Information about the School District's major funds starts on page 12. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$7,318,370 and expenditures of \$7,451,932.

The fund balance in the General Fund decreased \$115,684. This decrease is attributed to the School District hiring two additional teachers during the fiscal year and also purchasing a new bus.

The fund balance in the Debt Service Fund increased \$44,390. The revenues that the School District received from property taxes and intergovernmental sources exceeded the expenditures by the School District for debt payments.

General Fund - Budget Highlights

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$8,208 more than the final budgeted amount for the General Fund. Actual revenues for interest were \$2,749 above final budgeted revenues. Final budgeted expenditures were \$5,463 more than actual expenditures. Original budgeted revenues were \$379,245 less than final budgeted revenues due to increases in State foundation monies received during the year. Original budgeted appropriations were \$220,237 less than final budgeted expenditures. These differences represent cyclical changes that occur throughout the year and are not known at the time the original budgets are prepared.

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Capital Assets

At the end of fiscal year 2005 the School District had \$18,264,882 invested in capital assets.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$399,200	\$399,200
Land Improvements	524,323	561,332
Buildings and Improvements	16,257,538	16,656,887
Furniture, Fixtures and Equipment	917,229	1,049,027
Vehicles	166,592	137,048
Totals	\$18,264,882	\$18,803,494

For more information on capital assets, see Note 9 to the basic financial statements.

Debt

At June 30, 2005, the School District had \$2,265,000 in bonds outstanding, with \$85,000 due within one year. Table 5 summarizes bonds outstanding:

(Table 5)
Outstanding Debt, at Year-End

	2005	2004
General Obligation Bonds:		
1999 5.06% School Improvement Bonds	\$790,000	\$820,000
1999 5.04% School Improvement Bonds	1,475,000	1,530,000
Totals	\$2,265,000	\$2,350,000

The School District's overall legal debt margin was \$3,536,102 with an unvoted debt margin of \$58,640 at June 30, 2005.

For more information on debt, refer to the note 14 to the basic financial statements.

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martha Kinzer, Treasurer, Fairfield Local School District, 11611 S.R. 771, Leesburg, Ohio, 45135.

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Fairfield Local School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,448,965
Prepaid Items	7,623
Materials and Supplies Inventory	17,008
Intergovernmental Receivable	17,699
Taxes Receivable	1,355,317
Cash and Cash Equivalents With Fiscal Agents	10,000
Capital Assets:	
Land	399,200
Depreciable Capital Assets, Net	<u>17,865,682</u>
Total Assets	<u>21,121,494</u>
Liabilities	
Accounts Payable	14,018
Accrued Wages and Benefits	611,197
Intergovernmental Payable	162,736
Deferred Revenue	1,200,657
Matured Bonds Payable	10,000
Accrued Interest Payable	9,318
Long-Term Liabilities:	
Due Within One Year	121,906
Due in More Than One Year	<u>2,237,206</u>
Total Liabilities	<u>4,367,038</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,999,882
Restricted for:	
Capital Projects	3,963
Debt Service	519,805
Other Purposes	78,283
Unrestricted	<u>152,523</u>
Total Net Assets	<u><u>\$16,754,456</u></u>

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest	Governmental Activities	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$3,097,722	\$239,295	\$71,214	(\$2,787,213)
Special	524,375	0	303,503	(220,872)
Vocational	245,690	0	73,222	(172,468)
Support Services:				
Pupils	310,588	0	2,047	(308,541)
Instructional Staff	669,507	0	165,176	(504,331)
Board of Education	52,914	0	0	(52,914)
Administration	761,742	0	11,443	(750,299)
Fiscal	333,346	0	0	(333,346)
Business	40,552	0	0	(40,552)
Operation and Maintenance of Plant	659,238	3,319	0	(655,919)
Pupil Transportation	499,008	0	5,193	(493,815)
Central	18,869	0	5,000	(13,869)
Operation of Non-Instructional Services:				
Other	4,176	0	0	(4,176)
Food Services	316,207	151,468	89,747	(74,992)
Extracurricular Activities	154,327	50,736	5,690	(97,901)
Interest and Fiscal Charges	117,219	0	0	(117,219)
Total Governmental Activities	<u>\$7,805,480</u>	<u>\$444,818</u>	<u>\$732,235</u>	<u>(6,628,427)</u>
General Revenues:				
Property Taxes Levied for:				
				1,161,471
				214,740
				26,556
Grants and Entitlements not				
				4,548,583
				12,896
				28,549
				145,164
				2,187
Total General Revenues				6,140,146
Change in Net Assets				(488,281)
Net Assets Beginning of Year - Restated (See Note 3)				17,242,737
Net Assets End of Year				\$16,754,456

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District

Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$711,838	\$507,963	\$229,164	\$1,448,965
Cash and Cash Equivalents with Fiscal Agents	0	10,000	0	10,000
Receivables:				
Taxes	1,153,352	175,495	26,470	1,355,317
Intergovernmental	0	0	17,699	17,699
Prepaid Items	7,623	0	0	7,623
Materials and Supplies Inventory	8,965	0	8,043	17,008
Advances to Other Funds	97,000	0	0	97,000
Total Assets	<u>\$1,978,778</u>	<u>\$693,458</u>	<u>\$281,376</u>	<u>\$2,953,612</u>
Liabilities				
Accounts Payable	\$12,207	\$0	\$1,811	\$14,018
Accrued Wages and Benefits	569,121	0	42,076	611,197
Intergovernmental Payable	147,337	0	15,399	162,736
Deferred Revenue	1,058,055	159,973	24,186	1,242,214
Matured Bonds Payable	0	10,000	0	10,000
Advances From Other Funds	0	0	97,000	97,000
Total Liabilities	<u>1,786,720</u>	<u>169,973</u>	<u>180,472</u>	<u>2,137,165</u>
Fund Balances				
Reserved for Encumbrances	184,839	0	38,525	223,364
Reserved for Advances	97,000	0	0	97,000
Reserved for Property Taxes	95,297	15,522	2,284	113,103
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	(185,078)	0	0	(185,078)
Special Revenue Funds	0	0	56,132	56,132
Debt Service Fund	0	507,963	0	507,963
Capital Projects Funds	0	0	3,963	3,963
Total Fund Balances	<u>192,058</u>	<u>523,485</u>	<u>100,904</u>	<u>816,447</u>
Total Liabilities and Fund Balances	<u>\$1,978,778</u>	<u>\$693,458</u>	<u>\$281,376</u>	<u>\$2,953,612</u>

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances		\$816,447
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital assets	23,053,001	
Accumulated depreciation	(4,788,119)	
Total capital assets	18,264,882	18,264,882
 Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Taxes		41,557
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable	(2,265,000)	
Accrued interest on bonds	(9,318)	
Compensated absences	(94,112)	
	(2,368,430)	(2,368,430)
 Net Assets of Governmental Activities		 \$16,754,456

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	All Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$1,161,837	\$217,750	\$26,538	\$1,406,125
Intergovernmental	4,791,697	26,354	456,294	5,274,345
Interest	28,549	0	283	28,832
Tuition and Fees	239,295	0	0	239,295
Extracurricular Activities	0	0	50,736	50,736
Customer Services	0	0	151,468	151,468
Rent	3,319	0	0	3,319
Gifts and Donations	411	0	18,675	19,086
Miscellaneous	86,604	10,461	48,099	145,164
Total Revenues	6,311,712	254,565	752,093	7,318,370
Expenditures:				
Current:				
Instruction:				
Regular	2,869,832	0	71,308	2,941,140
Special	397,024	0	105,131	502,155
Vocational	228,400	0	4,812	233,212
Support Services:				
Pupils	290,971	0	2,001	292,972
Instructional Staff	370,416	0	179,988	550,404
Board of Education	52,914	0	0	52,914
Administration	690,709	0	12,119	702,828
Fiscal	304,549	7,658	6,129	318,336
Business	11,100	0	29,452	40,552
Operation and Maintenance of Plant	536,489	0	55,798	592,287
Pupil Transportation	509,930	0	0	509,930
Central	13,402	0	5,000	18,402
Operation of Non-Instructional Services:				
Other	4,176	0	0	4,176
Food Services	0	0	276,495	276,495
Extracurricular Activities	88,349	0	63,407	151,756
Capital Outlay	61,856	0	0	61,856
Debt Service:				
Principal	0	85,000	0	85,000
Interest and Fiscal Charges	0	117,517	0	117,517
Total Expenditures	6,430,117	210,175	811,640	7,451,932
Excess of Revenue Over (Under) Expenditures	(118,405)	44,390	(59,547)	(133,562)
Other Financing Sources (Uses):				
Transfers In	0	0	112	112
Transfers Out	0	0	(112)	(112)
Proceeds from Sale of Capital Assets	2,721	0	0	2,721
Total Other Financing Sources (Uses)	2,721	0	0	2,721
Net Change in Fund Balances	(115,684)	44,390	(59,547)	(130,841)
Fund Balances at Beginning of Year - Restated (See Note 3)	307,742	479,095	160,451	947,288
Fund Balances at End of Year	\$192,058	\$523,485	\$100,904	\$816,447

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds (\$130,841)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed asset additions	171,659	
Depreciation expense	<u>(709,737)</u>	
Excess of capital outlay under depreciation expense		(538,078)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Proceeds from Sale of Capital Assets	(2,721)	
Gain on Disposal of Capital Assets	<u>2,187</u>	
		(534)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes		(3,358)
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Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Bond principal retirement		85,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	298	
Decrease in compensated absences	33,455	
Decrease in intergovernmental payable	<u>65,777</u>	
Total additional expenditures		<u>99,530</u>

Change in Net Assets of Governmental Activities (\$488,281)

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property Taxes	\$1,161,109	\$1,169,217	\$1,169,217	\$0
Intergovernmental	4,433,500	4,791,697	4,791,697	0
Interest	7,800	25,800	28,549	2,749
Tuition and Fees	253,323	239,295	239,295	0
Rent	2,600	3,323	3,319	(4)
Gifts and Donations	0	411	411	0
Miscellaneous	78,500	86,334	86,334	0
Total Revenues	5,936,832	6,316,077	6,318,822	2,745
Expenditures:				
Current:				
Instruction:				
Regular	3,284,334	2,942,052	2,955,125	(13,073)
Special	249,719	423,710	424,174	(464)
Vocational	167,915	228,096	232,545	(4,449)
Support Services:				
Pupils	137,902	310,213	286,433	23,780
Instructional Staff	261,466	369,976	369,533	443
Board of Education	21,145	41,149	39,024	2,125
Administration	468,218	692,198	690,170	2,028
Fiscal	261,590	291,117	296,773	(5,656)
Business	11,400	11,100	11,100	0
Operation and Maintenance of Plant	1,132,999	546,080	555,342	(9,262)
Pupil Transportation	237,196	500,056	491,263	8,793
Central	0	13,545	13,545	0
Operation of Non-Instructional Services	200	4,028	4,236	(208)
Extracurricular Activities	69,080	90,419	88,339	2,080
Capital Outlay	1,520	61,182	61,856	(674)
Total Expenditures	6,304,684	6,524,921	6,519,458	5,463
Excess of Revenues Over (Under) Expenditures	(367,852)	(208,844)	(200,636)	8,208
Other Financing Sources:				
Proceeds from Sale of Capital Assets	0	2,721	2,721	0
Advances In	25,000	0	0	0
Refund of Prior Year Expenditures	0	270	270	0
Total Other Financing Sources	25,000	2,991	2,991	0
Net Change in Fund Balance	(342,852)	(205,853)	(197,645)	8,208
Fund Balance at Beginning of Year	637,778	637,778	637,778	0
Prior Year Encumbrances Appropriated	74,663	74,663	74,663	0
Fund Balance at End of Year	\$369,589	\$506,588	\$514,796	\$8,208

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$25,139	\$21,731
Liabilities		
Undistributed Monies	0	\$21,731
Net Assets		
Held in Trust for Scholarships	\$25,139	

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$2,000
Interest	361
Total Additions	2,361
Deductions:	
Scholarships Awarded	535
Change in Net Assets	1,826
Net Assets Beginning of Year - Restated (See Note 3)	23,313
Net Assets End of Year	\$25,139

See Accompanying Notes to the Basic Financial Statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The Fairfield Local School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 53 square miles. It is located in Highland and Clinton Counties, and includes all of the Villages of Leesburg and Highland, all of Fairfield Township, portions of Penn and Liberty Townships and a portion of Wayne Township in Clinton County. The School District is staffed by 43 non-certificated employees, 61 certificated teaching personnel and 7 administrative employees who provide services to 905 students and other community members. The School District currently operates 1 instructional building and 1 bus garage.

Reporting Entity:

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

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

The School District participates in the three jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, the Ohio School Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP). These organizations are presented in Notes 17 and 18 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and certain other long-term obligations when the School District is obligated for the payment.

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

Fiduciary Funds:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance and grants.

Deferred Revenue:

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits.

During fiscal year 2005, the School District's investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$28,549, which includes \$14,593 assigned from other School District funds.

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

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of purchased food held for resale and consumable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 - 40 years
Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	8 - 10 years
Vehicles	10 years
Textbooks	5 years

I. Interfund Balances

On fund financial statements, long-term interfund loan receivables and payables are reported as "Advances to Other Funds" and "Advances from Other Funds" and are equally offset by a fund balance reserve in the funds making the advances, which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

K. Accrued Liabilities and Long-Term Obligations

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

The government wide statement of net assets reports \$602,051 of restricted net assets, of which \$133,149 are restricted by enabling legislation.

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, advances, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2005.

N. Interfund Transactions

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Estimates

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

P. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Changes in Accounting Principles

For fiscal year 2005, the School District has implemented *GASB Statement No. 40, "Deposit and Investment Risk Disclosures"*, *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"* and *GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers"*.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the School District’s financial statements for fiscal year 2005.

B. Restatement of Fund Balance/Net Assets

For fiscal year 2005, the School District reclassified a fund from a Private Purpose Trust Fund to a Special Revenue Fund. This fund reclassification had the following effect on fund balances/net assets at June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>All Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$307,742	\$479,095	\$145,204	\$932,041
Fund Reclassification	0	0	15,247	15,247
Restated Fund Balance, June 30, 2004	<u>\$307,742</u>	<u>\$479,095</u>	<u>\$160,451</u>	<u>\$947,288</u>

	<u>Governmental Activities</u>	<u>Private Purpose Trust</u>
Net Assets, June 30, 2004	\$17,227,490	\$38,560
Fund Reclassification	15,247	(15,247)
Restated Net Assets, June 30, 2004	<u>\$17,242,737</u>	<u>\$23,313</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – ACCOUNTABILITY

At June 30, 2005, the Food Service and Reading Intervention Special Revenue Funds had deficit fund balances of \$96,690 and \$1,110, respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$115,684)
Adjustments:	
Revenue Accruals	7,380
Expenditure Accruals	107,701
Encumbrances	<u>(197,042)</u>
Budget Basis	<u><u>(\$197,645)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Interim monies held by the School District 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligation 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

Investments

As of June 30, 2005, the School District only had investments with STAROhio.

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	<u>\$512,370</u>	Average 60 days

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Credit Risk

STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (continued)

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 year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland and Clinton Counties. The Highland 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$95,297 in the General Fund, \$15,522 in the Debt Service Fund, and \$2,284 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2004 was \$102,677 in the General Fund, \$26,163 in the Debt Service Fund, and \$2,453 in the Classroom Facilities Maintenance Special Revenue Fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (continued)

	2004 Second - Half Collections		2005 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$46,023,510	83.61%	\$50,136,590	85.50%
Public Utility Personal	2,485,920	4.52%	2,422,270	4.13%
Tangible Personal Property	6,536,890	11.87%	6,081,330	10.37%
Total Assessed Value	<u>\$55,046,320</u>	<u>100.00%</u>	<u>\$58,640,190</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.35		\$30.20	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes and intergovernmental grants. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Title I	\$3,664
Vocational Grant	1,620
Special Education	10,742
Drug Free	1,293
Title II	<u>380</u>
Total Intergovernmental Receivables	<u>\$17,699</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/04	Additions	Deductions	Balance at 6/30/05
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$399,200	\$0	\$0	\$399,200
Capital Assets Being Depreciated:				
Land Improvements	687,902	0	0	687,902
Buildings and Improvements	18,294,381	61,856	0	18,356,237
Furniture, Fixtures and Equipment	1,972,630	47,626	(7,365)	2,012,891
Vehicles	563,719	62,177	0	625,896
Textbooks	970,875	0	0	970,875
Totals Capital Assets, Being Depreciated	<u>22,489,507</u>	<u>171,659</u>	<u>(7,365)</u>	<u>22,653,801</u>
Less Accumulated Depreciation:				
Land Improvements	(126,570)	(37,009)	0	(163,579)
Building and Improvements	(1,637,494)	(461,205)	0	(2,098,699)
Furniture, Fixtures and Equipment	(923,603)	(178,890)	6,831	(1,095,662)
Vehicles	(426,671)	(32,633)	0	(459,304)
Textbooks	(970,875)	0	0	(970,875)
Total Accumulated Depreciation	<u>(4,085,213)</u>	<u>(709,737)</u>	<u>6,831</u>	<u>(4,788,119)</u>
Total Capital Assets Being Depreciated, Net	<u>18,404,294</u>	<u>(538,078)</u>	<u>(534)</u>	<u>17,865,682</u>
Governmental Activities Capital Assets, Net	<u>\$18,803,494</u>	<u>(\$538,078)</u>	<u>(\$534)</u>	<u>\$18,264,882</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$254,643
Special	26,496
Vocational	21,680
Support Services:	
Pupils	21,815
Instructional Staff	124,769
Administration	59,555
Fiscal	17,641
Operation and Maintenance of Plant	71,827
Pupil Transportation	55,636
Central	467
Operation of Non-Instructional Services - Food Services	48,894
Extracurricular Activities	6,314
Total Depreciation Expense	<u><u>\$709,737</u></u>

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Love Insurance Agency for property insurance and inland marine coverage. Coverage is as follows:

Building and contents (\$1,000 Deductable)	\$19,017,000
--	--------------

The School District, along with other school districts in Ohio, participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 18).

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (continued)

Insurance coverage provided includes the following:

Fleet Insurance Coverage	
Combined single Limit Liability	\$3,000,000
Auto Medical Payments	5,000
Uninsured Motorist	250,000
Comprehensive	ACV or cost of repair, whichever is less Minus the applicable deductibles
Collision	ACV or cost of repair, whichever is less Minus the applicable deductibles
General Liability	
Each Occurrence Limit	1,000,000
General Aggregate Limit	3,000,000
Excess Liability each occurrence limit	2,000,000
Excess Liability aggregate limit	2,000,000
Fire Damage Limit (any one fire)	500,000
Medical Expense (per person/accident)	10,000
Medical Expense (each accident)	10,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant decrease in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year the School District pays an enrollment fee to the GRP to cover costs of administering the program.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a 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 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$101,048, \$90,220 and \$91,537 respectively; 57.01 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a 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, or by visiting the STRS Ohio web site at www.strsoh.org.

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - PENSION PLANS (continued)

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.

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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$383,528, \$352,053, and \$350,707, respectively; 83.60 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$1,031 made by the School District and \$992 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, four of the School District's members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$29,502 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$52,365.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. The classified employees working twelve months of the year earn ten to twenty days of vacation per fiscal year, depending upon length of service. The Superintendent and Treasurer earn thirty days of vacation per fiscal year. Accumulated, unused vacation time is paid to classified employees and the Superintendent and Treasurer upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel except the Superintendent and Treasurer who may accrue up to 240 days maximum. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 35 days for all personnel except the Superintendent and Treasurer who will be paid at 50 percent of accrued but unused sick leave up to a maximum of 100 days.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem Life Insurance Company of Indiana at the expense of the Board of Education. The School District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. Dental insurance is provided by Coresource, Inc. The School District provides vision insurance to all employees through Vision Service Plan. The cost of health insurance premiums are shared by the employees and the Board of Education as provided in the negotiated master agreement. The cost of dental and vision premiums is completely paid by the Board of Education.

C. Retirement Incentive

An employee who retires within the duration of the contract year period July 1, 2002, through June 30, 2005, will receive a retirement incentive bonus using the following formula:

One-half percent (.005) of the employee's average total compensation the last three full years of his/her employment in the School District.

The average is then multiplied by (X), where (X) equals the number of complete years of service in the Fairfield Local School District.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS (continued)

The following restrictions apply to this incentive:

1. The employee must be eligible for and taking initial regular retirement under either STRS or SERS. (Persons previously retired under STRS or SERS are ineligible.)
2. This incentive expired on June 30, 2005.
3. Retirement date must be during this contract term.
4. The employee must give the Board of Education a minimum of ninety (90) days written notice of his/her intent to retire.
5. An employee who retires during the school year receives no partial credit for that year in terms of bonus calculation; the bonus will be based on the last three complete years of service.
6. Compensation upon which the bonus is calculated includes all payments made to the employee from which retirement has been withheld.

The retirement incentive bonus is paid within thirty days of the actual retirement date, provided written evidence of actual retirement (such as a copy of a retirement check or its stub) has been provided to the Treasurer.

D. Attendance Incentive

Bonus checks are issued to employees who have perfect or excellent attendance in any full work year (July 1 – June 30). Bonuses are paid as follows:

Certified Employees – Employees who use fewer than three personal days and/or three sick days will be paid \$70 for each of those unused days to a maximum of six days and \$420.

Classified Employees – Employees who use fewer than three personal days and/or three sick days in any school year will be paid \$35 for each of those unused days to a maximum of six days and \$210.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS (continued)

Other conditions:

1. Any use of unpaid leave or “docked” days disqualifies the employee from any bonus.
2. Payment will be made on a separate check on August 1 of each year.
3. No STRS or SERS will be withheld. However, all taxes apply and will be withheld.
4. This program expired June 30, 2005.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2005 were as follows:

	Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due in One Year
<i><u>Governmental Activities:</u></i>					
School Improvement Bonds 1999 5.06%	\$820,000	\$0	\$30,000	\$790,000	\$30,000
School Improvement Bonds 1999 5.04%	1,530,000	0	55,000	1,475,000	55,000
Compensated Absences	127,567	20,578	54,033	94,112	36,906
Total Governmental Activities Long-Term Obligations	<u>\$2,477,567</u>	<u>\$20,578</u>	<u>\$139,033</u>	<u>\$2,359,112</u>	<u>\$121,906</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds 1999

The School District issued \$950,000 in voted general obligation bonds for the purpose of constructing a bus garage, administration office, vocational agricultural facility and athletic fields. The bonds were issued for a twenty-three year period with final maturity on December 1, 2021.

School Improvement Bonds 1999

The School District issued \$1,774,000 in voted general obligation bonds for the purpose of constructing a K-12 facility. The bonds were issued for twenty-three years, with final maturity on December 1, 2021.

The general obligation bonds will be paid from property tax revenues received in the Debt Service Fund. Compensated absences will be paid from the General and Food Service Funds.

The School District's overall legal debt margin was \$3,536,102 with an unvoted debt margin of \$58,640 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$85,000	\$113,776	\$198,776
2007	90,000	109,838	199,838
2008	100,000	105,465	205,465
2009	100,000	100,765	200,765
2010	105,000	95,844	200,844
2011-2015	615,000	392,138	1,007,138
2016-2020	790,000	209,940	999,940
2021-2022	380,000	20,474	400,474
Total	<u>\$2,265,000</u>	<u>\$1,148,240</u>	<u>\$3,413,240</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 – INTERFUND ACTIVITY

A. Interfund Transfers

Transfers made during the year-ended June 30, 2005, were as follows:

Transfer To		Transfer From
	Classroom Facilities Maintenance	Classroom Facilities
		\$112

The transfer was made to close out the Classroom Facilities Construction fund.

B. Advances To/From Other Funds

As of June 30, 2005, receivables and payables that resulted from various long-term advances were as follows:

Advances To		Advances From
	All Other Nonmajor Governmental Funds	General Fund
		\$97,000

The amounts advanced from the General Fund are the result of the School District moving unrestricted balances to support the food services program. The General Fund will be reimbursed when funds become available in the Food Service Fund.

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2004	(\$412,238)	\$0
Current Year Set-aside Requirement	126,521	126,521
Current Year Offsets	0	(296,588)
Qualifying Disbursements	<u>(251,667)</u>	<u>(86,363)</u>
Set-aside Balance Carried		
Forward to Future Years	<u>(\$537,384)</u>	<u>\$0</u>
Set-aside Reserve Balance		
as of June 30, 2005	<u>\$0</u>	<u>\$0</u>

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. 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 SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$54,253 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Hopewell Special Education Regional Resource Center (Hopewell)

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio, 45177.

C. Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development 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 participating school districts' elected boards, which possesses its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the School District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, Ohio, 45241-1581.

NOTE 18 - INSURANCE PURCHASING POOL

A. Ohio School Plan

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

NOTE 18 - INSURANCE PURCHASING POOL (continued)

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

NOTE 19 - CONTINGENCIES

A. Grants

The School 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 School District at June 30, 2005.

B. Litigation

The School District is not party to any legal proceeding.

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Auditor of State Betty Montgomery

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

Fairfield Local School District
Highland County
11611 State Route 771
Leesburg, Ohio 45135

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the Government's basic financial statements and have issued our report thereon dated February 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Fairfield Local School District
Highland County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 1, 2006



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

FAIRFIELD LOCAL SCHOOL DISTRICT

HIGHLAND 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
FEBRUARY 23, 2006**