

**Fairfield Union
Local School District**

Fairfield County, Ohio

Financial Statements and
Independent Auditor's Reports

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Fairfield Union Local School District
7698 Main Street
West Rushville, Ohio 43163

We have reviewed the *Independent Auditor's Report* of the Fairfield Union Local School District, Fairfield County, prepared by Kennedy, Cottrell + Associates, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 26, 2007

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Fairfield Union Local School District
7698 Main Street
West Rushville, Ohio 43163

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2006, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective 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 December 28, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
Columbus, Ohio
December 28, 2006

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006 (Unaudited)

The discussion and analysis of the Fairfield Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Fairfield Union Local School District exceeded its liabilities at June 30, 2006 by \$5,545,576. Of this amount, \$4,414,913 represents capital assets and related debt and net asset amounts restricted for specific purposes. The remaining \$1,130,663 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$956,019, which represents a 20.83 percent increase from 2005.
- ▶ General revenues accounted for \$15,453,884 or 83.56 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,041,477 or 16.44 percent of total revenues of \$18,495,361.
- ▶ The District had \$17,539,342 in expenses related to governmental activities; only \$3,041,477 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$15,453,884 were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General and Building Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$15,391,278 in revenues and \$15,070,932 in expenditures in fiscal year 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield Union Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General and Building Funds.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The District's two proprietary funds are internal service funds. Since the internal service funds operate on a break-even, cost-reimbursement basis, the District reports them as proprietary funds using the full accrual basis of accounting. Since the internal service funds exclusively benefits governmental functions, they have been included with governmental activities in the government-wide financial statements.

Fiduciary Funds

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the 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.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$16,257,072	\$15,275,778
Capital Assets, Net	5,658,015	5,772,993
<i>Total Assets</i>	<u>21,915,087</u>	<u>21,048,771</u>
<u>Liabilities:</u>		
Long-Term Liabilities	10,770,676	10,676,364
Other Liabilities	5,598,835	5,782,850
<i>Total Liabilities</i>	<u>16,369,511</u>	<u>16,459,214</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	4,041,343	4,080,071
Restricted	373,570	409,404
Unrestricted	1,130,663	100,082
<i>Total Net Assets</i>	<u><u>\$5,545,576</u></u>	<u><u>\$4,589,557</u></u>

Current and other assets increased \$981,294 from fiscal year 2006 due to an increase in cash and cash equivalents held by the District. Capital assets decreased by only \$114,978 or 2.00 percent.

Current (other) liabilities decreased by \$184,015 or 3.18 percent.

Long-term liabilities increased by \$94,312 due to the net results of debt payments made and the addition of new capital leases.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. This accounts for 72.87 percent of net assets. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

The District's smallest portion of net assets is restricted net assets. This accounts for 6.74 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The remaining balance of \$1,130,663 or 20.39 percent is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2006 and provides a comparison to fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$2,044,704	\$597,967
Operating Grants and Contributions	996,773	945,105
<i>General Revenue:</i>		
Property Taxes	4,147,814	3,787,166
Income Taxes	1,961,800	1,651,944
Unrestricted Grants and Entitlements	8,778,416	9,626,652
Investment Earnings	434,682	200,271
Miscellaneous	131,172	117,934
<i>Total Revenues</i>	<u>18,495,361</u>	<u>16,927,039</u>
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	7,494,561	7,395,418
Special	1,713,567	1,695,210
Vocational	314,996	288,897
Other	320,355	25,315

(Continued)

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Table 2
Changes in Net Assets
(Continued)

	<u>2006</u>	<u>2005</u>
<i>Support Services:</i>		
Pupils	688,870	688,711
Instructional Staff	705,568	764,537
Board of Education	17,048	50,673
Administration	1,472,692	1,302,211
Fiscal	422,589	382,919
Operation and Maintenance of Plant	1,384,055	1,249,165
Pupil Transportation	1,206,625	1,028,888
Central	100,657	129,862
<i>Operation of Non-Instructional Services:</i>		
Food Service	629,838	625,820
Other	10,690	890
Extracurricular Activities	600,072	624,691
Interest and Fiscal Charges	<u>457,159</u>	<u>341,065</u>
<i>Total Expenses</i>	<u>17,539,342</u>	<u>16,594,272</u>
<i>Change in Net Assets</i>	956,019	332,767
Net Assets – Beginning of Year	<u>4,589,557</u>	<u>4,256,790</u>
Net Assets – End of Year	<u>\$5,545,576</u>	<u>\$4,589,557</u>

The most significant program expenses for the District are Regular Instruction, Special Instruction, Administration, Operation and Maintenance of Plant, and Pupil Transportation. These programs account for 75.67 percent of the total governmental activities. Regular Instruction, which accounts for 42.73 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 9.77 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 8.40 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Operation and Maintenance of Plant, which represents 7.89 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupil Transportation, which represents 6.88 percent of the total, represents costs associated with providing transportation services for student between home and school and to school activities.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 69.89 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and Grants and Entitlements Not Restricted to Specific Programs and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 22.43 percent and Grants and Entitlements Not Restricted to Specific Programs made up 47.46 percent of the total revenue for the governmental activities in fiscal year 2006.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

The District voters approved another bond retirement tax levy for 3.0 mills November 2004 as part of a \$7.9 million bond issue for the renovation of the Junior-Senior High School Building and to begin the design process of three new buildings.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$8,098,696 through the State's foundation program, which represents 43.79 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 56.12 percent of governmental activities program expenses. Support services expenses make up 34.20 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006 compared with fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
<i>Program Expenses:</i>				
Instruction	\$9,843,479	\$8,345,153	\$9,404,840	\$8,719,673
Support Services	5,998,104	5,419,603	5,596,966	5,552,270
Operation of Non-Instructional Services	640,528	(78,955)	626,710	3,272
Extracurricular Activities	600,072	354,905	624,691	434,920
Interest and Fiscal Charges	457,159	457,159	341,065	341,065
Total Expenses	<u>\$17,539,342</u>	<u>\$14,497,865</u>	<u>\$16,594,272</u>	<u>\$15,051,200</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$18,878,315 and expenditures and other financing uses of \$17,925,552.

Total governmental funds fund balance increased by \$952,763. The increase in fund balance for the year was most significant in the Building Fund, which increased by \$419,585 during fiscal year 2006. The Building Fund had increased interest revenue during fiscal year 2006.

The District should remain stable in fiscal years 2007 through 2009. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2006, the District amended its General Fund budget seven times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

For the General Fund, the final budget basis revenue was \$15,361,550 representing a \$357,442 increase from the original budget estimates \$15,004,108. The final budget reflected a 2.38 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of income taxes and intergovernmental revenue. For the General Fund, the final budget basis expenditures were \$15,328,740 representing an increase of \$649,254 from the original budget expenditures of \$14,679,486. The final budget reflected only a 4.42 percent increase from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$11.4 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, vehicles, and library books and textbooks, of which all was in governmental activities. That total carries an accumulated depreciation of \$5.7 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2006

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$356,747	\$356,747
<i>Depreciable Capital Assets:</i>		
Land Improvements	805,042	805,042
Buildings and Improvements	5,175,764	5,175,764
Furniture, Fixtures and Equipment	3,032,435	2,976,144
Vehicles	1,309,534	1,229,451
Library Books and Textbooks	693,189	738,080
<i>Total Capital Assets</i>	<u>11,372,711</u>	<u>11,281,228</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	67,233	26,989
Buildings and Improvements	2,353,478	2,308,562
Furniture, Fixtures and Equipment	2,037,623	2,024,944
Vehicles	894,491	854,295
Library Books and Textbooks	361,871	293,445
<i>Total Accumulated Depreciation</i>	<u>5,714,696</u>	<u>5,508,235</u>
Capital Assets, Net	<u>\$5,658,015</u>	<u>\$5,772,993</u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

(Unaudited)

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2006, the District had \$9,227,550 in general obligation debt outstanding with \$133,000 due within one year. Table 5 summarizes the bonds and note outstanding for fiscal year 2006 compared to fiscal year 2005.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2006	2005
Energy Conservation Note	\$345,000	\$500,000
Bonds – Buildings	820,000	855,000
Bonds – Buses	73,000	122,000
Bonds – Buildings and Improvements	7,989,550	7,989,550
Total	<u>\$9,227,550</u>	<u>\$9,466,550</u>

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a lower mid-wealth district, Fairfield Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Over half of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up just over 61 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. The careful financial planning and the passage of additional local taxes when needed have permitted the District to provide a quality education for students, along with maintenance of existing facilities.

In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2004 and the new court may be called upon to address the issue. On August 14, 2004 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2004 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The Ohio General Assembly has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). Seventy (70) percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2006; after this a phase out formula would begin.

The Fairfield Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes approximately 91 percent of the District's real estate valuation.

Commercial growth saw an increase in assessed valuation in calendar 2005. This was mainly due to increased valuation of the small businesses located throughout the District.

On November 2, 2004, voters of the Fairfield Union Local School District approved a \$7.9 million bond issue. This issue represents the first phase of a two phased Facilities Master Plan for the District. The entire plan, if fully implemented, will result in two new elementary schools – one at Bremen and one at Pleasantville, and a new High School to be located immediately east of the current Junior-Senior High School Building.

Phase I of the project will retire short-term lease purchase agreements, provide some renovation to the current Junior-Senior High School Building, and begin the design process for the new buildings.

Phase II of the project was approved by the voters in May 2006 by passage of a 1.0 percent income tax. Phase II will authorize additional bond issues of about \$18,000,000. The scope of Phase II will include the renovations to the Junior-Senior High Building, and the completion of the design, bidding and construction of three new buildings.

With passage of the May 2006 issue the District will also receive a grant of about \$38,000,000, which will fund about two-thirds of the entire Facilities Master Plan.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Kevin D. Miller, Treasurer of Fairfield Union Local School Board of Education, 7698 East Main Street, P.O. Box 63067, West Rushville, OH 43163.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$9,688,100
Cash and Cash Equivalents with Fiscal Agents	1,254,641
Property Taxes Receivable	4,353,114
Income Taxes Receivable	731,026
Accounts Receivable	1,282
Intergovernmental Receivable	53,034
Accrued Interest Receivable	1,799
Prepaid Items	1,098
Inventory Held for Resale	5,604
Materials and Supplies Inventory	84,983
Deferred Bond Issuance Cost	82,391
Nondepreciable Capital Assets	356,747
Depreciable Capital Assets, Net	<u>5,301,268</u>
 <i>Total Assets</i>	 <u>21,915,087</u>
 <u>Liabilities:</u>	
Accounts Payable	95,841
Accrued Wages and Benefits	1,258,734
Contracts Payable	42,875
Intergovernmental Payable	494,758
Accrued Interest Payable	37,328
Matured Compensated Absences Payable	41,946
Claims Payable	174,398
Deferred Revenue	3,452,955
<i>Long-Term Liabilities:</i>	
Due within One Year	221,481
Due in More Than One Year	<u>10,549,195</u>
 <i>Total Liabilities</i>	 <u>16,369,511</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,041,343
<i>Restricted for:</i>	
Debt Service	365,794
Other Purposes	7,776
Unrestricted	<u>1,130,663</u>
 <i>Total Net Assets</i>	 <u><u>\$5,545,576</u></u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$7,494,561	\$669,864	\$91,700	(\$6,732,997)
Special	1,713,567	113,178	543,144	(1,057,245)
Vocational	314,996	28,717	0	(286,279)
Other	320,355	25,408	26,315	(268,632)
<i>Support Services:</i>				
Pupils	688,870	60,852	100	(627,918)
Instructional Staff	705,568	59,794	27,648	(618,126)
Board of Education	17,048	1,588	0	(15,460)
Administration	1,472,692	134,428	4,701	(1,333,563)
Fiscal	422,589	45,325	0	(377,264)
Operation and Maintenance of Plant	1,384,055	116,349	0	(1,267,706)
Pupil Transportation	1,206,625	102,910	0	(1,103,715)
Central	100,657	7,791	17,015	(75,851)
<i>Operation of Non-Instructional Services:</i>				
Food Services	629,838	433,139	279,444	82,745
Other	10,690	194	6,706	(3,790)
Extracurricular Activities	600,072	245,167	0	(354,905)
Interest and Fiscal Charges	457,159	0	0	(457,159)
Total Governmental Activities	\$17,539,342	\$2,044,704	\$996,773	(14,497,865)

General Revenues:

Property Taxes Levied for:

General Purposes	3,462,032
Debt Service	492,080
Capital Outlay	193,702

Income Taxes Levied for:

General Purposes	1,961,800
Grants and Entitlements not Restricted to Specific Programs	8,778,416
Investment Earnings	434,682
Miscellaneous	131,172

Total General Revenues 15,453,884

Change in Net Assets 956,019

Net Assets at Beginning of Year 4,589,557

Net Assets at End of Year \$5,545,576

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Building	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$620,789	\$7,435,544	\$1,503,084	\$9,559,417
Property Taxes Receivable	3,554,347	0	798,767	4,353,114
Income Taxes Receivable	731,026	0	0	731,026
Accounts Receivable	1,282	0	0	1,282
Intergovernmental Receivable	0	0	53,034	53,034
Accrued Interest Receivable	1,799	0	0	1,799
Prepaid Items	1,098	0	0	1,098
Inventory Held for Resale	0	0	5,604	5,604
Materials and Supplies Inventory	76,958	0	8,025	84,983
<i>Total Assets</i>	<u>\$4,987,299</u>	<u>\$7,435,544</u>	<u>\$2,368,514</u>	<u>\$14,791,357</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$70,716	\$0	\$25,125	\$95,841
Accrued Wages and Benefits	1,169,923	0	88,811	1,258,734
Contracts Payable	5,941	0	36,934	42,875
Intergovernmental Payable	469,087	0	25,671	494,758
Compensated Absences Payable	41,946	0	0	41,946
Deferred Revenue	3,141,718	0	702,350	3,844,068
<i>Total Liabilities</i>	<u>4,899,331</u>	<u>0</u>	<u>878,891</u>	<u>5,778,222</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	71,743	0	36,596	108,339
Reserved for Property Taxes	379,903	0	89,062	468,965
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	(363,678)	0	0	(363,678)
Special Revenue Funds	0	0	455,932	455,932
Debt Service Fund	0	0	473,226	473,226
Capital Projects Funds	0	7,435,544	434,807	7,870,351
<i>Total Fund Balances</i>	<u>87,968</u>	<u>7,435,544</u>	<u>1,489,623</u>	<u>9,013,135</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,987,299</u>	<u>\$7,435,544</u>	<u>\$2,368,514</u>	<u>\$14,791,357</u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Funds Balances \$9,013,135

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

Capital assets used in governmental activities are not financial resources and therefore
 are not reported in the funds. 5,658,015

Some of the District's receivables 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. These receivables consist of:
 Delinquent property taxes 391,113

Unamortized issuance costs represent deferred charges which do not provide current
 financial resources and are therefore not reported in the funds 82,391

Some liabilities are not due and payable in the current period and therefore
 are not reported in the funds. These liabilities consist of:

Energy conservation notes	(345,000)	
Premium on bonds issued	(175,985)	
General obligation bonds	(8,882,550)	
Accrued interest on notes and bonds	(37,328)	
Capital leases	(385,144)	
Compensated absences	<u>(981,997)</u>	
Total liabilities that are not reported in the funds		(10,808,004)

Internal service funds are used by management to charge the costs
 of insurance activities to individual funds. The assets and liabilities of the internal
 service funds are included in governmental activities in the statement of net assets. 1,208,926

Net Assets of Governmental Activities \$5,545,576

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2006

	General	Building	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$3,258,485	\$0	\$756,396	\$4,014,881
Income Taxes	1,961,800	0	0	1,961,800
Intergovernmental	8,684,243	0	1,076,786	9,761,029
Interest	22,199	374,468	32,445	429,112
Tuition and Fees	1,399,752	0	0	1,399,752
Extracurricular Activities	0	0	211,813	211,813
Rentals	30,153	0	0	30,153
Gifts and Donations	0	0	14,160	14,160
Charges for Services	0	0	433,139	433,139
Miscellaneous	34,646	0	66,373	101,019
<i>Total Revenues</i>	<u>15,391,278</u>	<u>374,468</u>	<u>2,591,112</u>	<u>18,356,858</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	7,206,682	0	95,107	7,301,789
Special	1,217,619	0	494,039	1,711,658
Vocational	308,943	0	0	308,943
Other	273,350	0	44,371	317,721
<i>Support Services:</i>				
Pupils	654,674	0	100	654,774
Instructional Staff	643,285	0	36,900	680,185
Board of Education	17,079	0	0	17,079
Administration	1,446,231	0	12,917	1,459,148
Fiscal	435,599	0	13,340	448,939
Operation and Maintenance of Plant	1,251,729	0	11,708	1,263,437
Pupil Transportation	1,107,154	120,000	3,753	1,230,907
Central	83,824	0	16,833	100,657
Operation of Non-Instructional Services	0	0	619,029	619,029
Extracurricular Activities	360,936	0	233,616	594,552
Capital Outlay	0	0	122,800	122,800
<i>Debt Service:</i>				
Principal Retirement	58,169	0	239,000	297,169
Interest and Fiscal Charges	5,658	0	505,087	510,745
<i>Total Expenditures</i>	<u>15,070,932</u>	<u>120,000</u>	<u>2,448,600</u>	<u>17,639,532</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>320,346</u>	<u>254,468</u>	<u>142,512</u>	<u>717,326</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	1,720	0	0	1,720
Inception of Capital Lease	113,717	120,000	0	233,717
Transfers In	0	45,117	240,903	286,020
Transfers Out	(286,020)	0	0	(286,020)
<i>Total Other Financing Sources (Uses)</i>	<u>(170,583)</u>	<u>165,117</u>	<u>240,903</u>	<u>235,437</u>
<i>Net Change in Fund Balances</i>	149,763	419,585	383,415	952,763
<i>Fund Balances at Beginning of Year</i>	(61,795)	7,015,959	1,106,208	8,060,372
<i>Fund Balances at End of Year</i>	<u>\$87,968</u>	<u>\$7,435,544</u>	<u>\$1,489,623</u>	<u>\$9,013,135</u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$952,763

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(14,794)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(100,184)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Delinquent property taxes	132,932
Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	297,169
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities: Inception of capital leases	(233,717)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	53,586
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: Increase in compensated absences Trade-in of capital leases	(170,382) 6,326
Total expenditures not reported in the funds	(164,056)
Internal service funds are used by management to charge the costs of insurance to individual funds. The net revenue of the internal service funds is reported as governmental activities.	32,320
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$956,019</u></u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$3,403,115	\$3,274,188	\$3,274,188	\$0
Income Taxes	1,769,000	1,881,477	1,881,477	0
Intergovernmental	8,275,493	8,684,243	8,684,243	0
Interest	60,000	59,184	62,342	3,158
Tuition and Fees	1,433,500	1,399,871	1,399,975	104
Rentals	30,000	26,820	30,153	3,333
Miscellaneous	33,000	35,767	37,516	1,749
<i>Total Revenues</i>	15,004,108	15,361,550	15,369,894	8,344
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	7,190,344	7,355,331	7,355,331	0
Special	1,197,784	1,278,182	1,275,355	2,827
Vocational	300,334	329,556	329,556	0
Adult/Continuing	31,674	269	269	0
Other	231,299	232,659	232,659	0
<i>Support Services:</i>				
Pupils	691,663	697,381	697,381	0
Instructional Staff	665,327	666,849	666,849	0
Board of Education	34,169	38,114	38,114	0
Administration	1,326,093	1,458,849	1,456,427	2,422
Fiscal	393,624	421,310	421,310	0
Operation and Maintenance of Plant	1,120,233	1,284,973	1,284,973	0
Pupil Transportation	967,257	1,094,169	1,094,169	0
Central	123,980	86,728	86,728	0
Extracurricular Activities	405,705	384,370	384,370	0
<i>Total Expenditures</i>	14,679,486	15,328,740	15,323,491	5,249
<i>Excess of Revenues Over (Under) Expenditures</i>	324,622	32,810	46,403	13,593
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	1,000	1,720	1,720	0
Transfers Out	(282,488)	(286,020)	(286,020)	0
<i>Total Other Financing Sources (Uses)</i>	(281,488)	(284,300)	(284,300)	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	43,134	(251,490)	(237,897)	13,593
<i>Fund Balance at Beginning of Year</i>	661,015	661,015	661,015	0
<i>Prior Year Encumbrances Appropriated</i>	78,699	78,699	78,699	0
<i>Fund Balance at End of Year</i>	\$782,848	\$488,224	\$501,817	\$13,593

See accompanying notes to the basic financial statements and accountant's report.

FAIRIFIELD UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Current Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$128,683
Cash and Cash Equivalents with Fiscal Agent	<u>1,254,641</u>
<i>Total Current Assets</i>	<u>1,383,324</u>
<u>Current Liabilities:</u>	
Claims Payable	<u>174,398</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$1,208,926</u></u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Statement of Revenues,
Expenses and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006*

	Governmental Activities
	Internal Service Funds
<u>Operating Revenues:</u>	
Charges for Services	\$1,609,977
Other	35,183
<i>Total Operating Revenues</i>	<u>1,645,160</u>
<u>Operating Expenses:</u>	
Purchased Services	214,707
Materials and Supplies	2,955
Claims	1,400,748
<i>Total Operating Expenses</i>	<u>1,618,410</u>
<i>Operating Income (Loss)</i>	26,750
<u>Nonoperating Revenue:</u>	
Interest	<u>5,570</u>
<i>Change in Net Assets</i>	32,320
<i>Net Assets at Beginning of Year</i>	<u>1,176,606</u>
<i>Net Assets at End of Year</i>	<u><u>\$1,208,926</u></u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	Governmental Activities
	Internal Service Funds
<hr/> <hr/>	
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$1,609,977
Other Cash Receipts	35,183
Cash Payments for Goods and Services	(217,662)
Cash Payments for Claims	(1,346,644)
	<hr/>
<i>Net Cash from Operating Activities</i>	80,854
	<hr/>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	5,570
	<hr/>
<i>Net Cash from Investing Activities</i>	5,570
	<hr/>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	86,424
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	1,296,900
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$1,383,324
	<hr/> <hr/>
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Income (Loss)	\$26,750
	<hr/>
<u>Adjustments to Reconcile Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>Increase (Decrease) in Liabilities:</i>	
Claims Payable	54,104
	<hr/>
Total Adjustments	54,104
	<hr/>
<i>Net Cash from Operating Activities</i>	\$80,854
	<hr/> <hr/>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$178,643</u>
<u>Liabilities:</u>	
Undistributed Monies	<u>\$178,643</u>

See accompanying notes to the basic financial statements and accountant's report.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Fairfield Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. It is staffed by 79 non-certificated employees, 127 certificated full-time teaching personnel and 9 administrative employees who provide services to 2,062 students and other community members. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

Reporting Entity

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

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

The District is associated with five organizations, four of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations are the Metropolitan Educational Council, the Fairfield County Council for Educational Collaboration, Central Ohio Special Education Regional Resource Center, the South Central Ohio Insurance Consortium and the Shakley Unservile Inc. Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 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 District's accounting policies are described below.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and 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. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus 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.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following are the District's major governmental funds:

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

Building Fund- This fund is used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The internal service funds of the District account for a self-insurance program, which provides health and dental insurance benefits to employees, and the District's class play activities.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

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 District are included on the statement of 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 balance 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.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 proprietary and 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 Nonexchange 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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2006, 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.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

E. Cash and Cash Equivalents

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

During the fiscal year 2006, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), money market funds, and federal agency securities. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. 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, 2006.

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 2006 amounted to \$22,199.

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

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks and capital improvements. See Note 18 for additional information regarding set-asides.

I. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Improvements	15 - 99 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Compensated Absences

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

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

The entire compensated absence liability is reported on the government-wide financial statements.

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

L. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, 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 year. Capital leases, bonds and long-term notes are recognized as a liability on the fund financial statements when due.

M. 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. Fund Balance Reserves

The District reserves those portions of fund balance 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 and property taxes.

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

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

P. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2006, the District reported no extraordinary or special items.

R. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

S. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board'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 District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The appropriation resolution is subject to amendment by the Board throughout the 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 year.

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of GASB Statement No. 46 or 47 had no effect on the disclosure requirements or the prior period fund balances of the District.

NOTE 4 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2006:

EMIS	\$118
Entry Year	6
Summer Intervention	18,547
Title IV	694
Title II-A	5,392

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the 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 and described earlier 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 and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and modified accrual 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (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>	
Budget Basis	(\$237,897)
<i>Adjustments:</i>	
Revenue Accruals	21,384
Expenditure Accruals	134,189
Encumbrances	118,370
Other Sources (Uses)	113,717
GAAP Basis	<u><u>\$149,763</u></u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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 accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2006, the carrying amount of all District deposits was \$1,285,575, which includes \$1,254,641 cash with fiscal agent. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$29,410 of the District's bank balance of \$129,410 was exposed to custodial credit risk as discussed above while \$100,000 was covered by Federal Depository Insurance. The \$29,410 exposed to custodial risk was collateralized with securities held by the pledging financial institution or its agent in the District's name

Investments: As of June 30, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	Less Than One Year	One to Five Years
STAROhio	\$4,007	\$4,007	\$0
Money Market	8,910,162	8,910,162	0
U.S. Treasury Bonds and Notes	921,640	821,640	100,000
Totals	<u>\$9,835,809</u>	<u>\$9,735,809</u>	<u>\$100,000</u>

Interest Rate Risk: Interest rate risk is the risk, that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's has assigned STAROhio an "AAAm" rating. Moody's has assigned U.S. Treasury Obligations an "Aaa" rating. The money market funds were unrated.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party's trust department or agent, and may be held in the name of the District or not.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. U.S. Treasury Bonds and Notes comprised 9.37% of the School District's investments and Money Market comprised 90.59% of the School District's investments.

NOTE 7 - SCHOOL INCOME TAXES

The District currently benefits from a .75% income tax, which is assessed on all residents of the District. The District apportions all the proceeds to the General Fund. During fiscal year 2006, the District received \$1,961,800 from the school income tax.

NOTE 8 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid 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.

The District receives property taxes from Fairfield County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represents the June 2006 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2006 was \$468,965 and is recognized as revenue. Of this total amount, \$379,903 was available to the General Fund, \$66,435 was available to the Bond Retirement Fund, and \$22,627 was available to the Permanent Improvement Fund.

NOTE 8 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$154,201,680	91.29%	\$157,434,350	91.97%
Public Utility Personal	10,535,820	6.24%	10,665,280	6.23%
Tangible Personal Property	4,170,839	2.47%	3,075,218	1.80%
Total Assessed Value	<u>\$168,908,339</u>	<u>100.00%</u>	<u>\$171,174,848</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$45.00		\$47.90	

NOTE 9 - RECEIVABLES

Receivables at June 30, 2006 consisted of property and income taxes, accounts (student fees), interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
<i>Other Governmental Funds:</i>	
Lunchroom	\$27,321
Title I	21,266
Title IV	236
Title II-A	4,211
Total Intergovernmental Receivable	<u>\$53,034</u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 10 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

Asset Category	Balance at July 1, 2005	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2006
<i>Nondepreciable Capital Assets:</i>				
Land	\$356,747	\$0	\$0	\$356,747
<i>Depreciable Capital Assets:</i>				
Land Improvements	805,042	0	0	805,042
Buildings and Improvements	5,175,764	0	0	5,175,764
Furniture, Fixtures and Equipment	2,976,144	260,320	(204,029)	3,032,435
Vehicles	1,229,451	130,788	(50,705)	1,309,534
Library Books and Textbooks	738,080	0	(44,891)	693,189
Total Depreciable Capital Assets	<u>10,924,481</u>	<u>391,108</u>	<u>(299,625)</u>	<u>11,015,964</u>
Total Capital Assets	<u>11,281,228</u>	<u>391,108</u>	<u>(299,625)</u>	<u>11,372,711</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(26,989)	(40,244)	0	(67,233)
Buildings and Improvements	(2,308,562)	(44,916)	0	(2,353,478)
Furniture, Fixtures and Equipment	(2,024,944)	(149,057)	136,378	(2,037,623)
Vehicles	(854,295)	(90,901)	50,705	(894,491)
Library Books and Textbooks	(293,445)	(80,784)	12,358	(361,871)
Total Accumulated Depreciation	<u>(5,508,235)</u>	<u>(405,902)</u>	<u>199,441</u>	<u>(5,714,696)</u>
Total Net Capital Assets	<u><u>\$5,772,993</u></u>	<u><u>(\$14,794)</u></u>	<u><u>(\$100,184)</u></u>	<u><u>\$5,658,015</u></u>

Of the capital assets, \$419,128 are assets that are under capital lease. These assets under capital lease have an accumulated depreciation of \$60,969.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$157,884
Special	995
Vocational	2,864
<i>Support Services:</i>	
Pupils	2,938
Instructional Staff	92,598
Administration	13,934
Fiscal	1,551
Operation and Maintenance	20,812
Pupil Transportation	89,858
<i>Operation of Non-Instructional Services:</i>	
Food Service	4,067
Other	829
Extracurricular Activities	17,572
	<hr/>
Total Depreciation Expense	<u><u>\$405,902</u></u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 11 - RISK MANAGEMENT

The 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 2006, the District contracted with Ohio School Plan for professional and general liability insurance, Erie Insurance for fleet insurance, and Indiana Insurance for property insurance. Coverages provided are as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$36,633,534
Musical Instruments (\$500 deductible)	200,000
Automobile Liability (\$500 deductible)	
Per Person	1,000,000
Per Accident	1,000,000
Uninsured Motorists	
Per Person	1,000,000
Per Accident	1,000,000
<i>General Liability:</i>	
Per Occurrence (\$1,000 deductible)	1,000,000
Aggregate Limit	3,000,000
Public Official Bonds	
Treasurer	100,000
Superintendent/Board President (each)	20,000

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

For fiscal year 2006, the District participated in the Shakley Unservile Inc. Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 20). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to a third party administrator, South Central Ohio Insurance Consortium, out of the District's Self-Insurance Internal Service Fund. EV Benefits services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 11 - RISK MANAGEMENT - (Continued)

The claims liability of \$174,398 reported at June 30, 2006 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$134,002	\$1,368,773	\$1,382,481	\$120,294
2006	120,294	1,400,748	1,346,644	174,398

NOTE 12 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The 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 District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58 percent of the 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 statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$257,349, \$317,961, \$283,752, respectively; 51.58 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$124,611 representing the unpaid contribution for fiscal year 2006, is recorded as a liability on the statement of net assets.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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.

Plan members are required to contribute 10.0 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,001,644, \$994,799, and \$903,912, respectively; 83.57 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$164,535 representing the unpaid contribution for fiscal year 2006, is recorded as a liability on the statement of net assets.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, four members of the Board of Education have elected Social Security.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$77,050 during fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information year available). For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship 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 fiscal year 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay has been established at \$35,800. 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 annual health care expenses. Expenses for health care at June 30, 2005 (the latest information year available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants currently receiving health care benefits is approximately 58,123. For the District, the amount to fund health care benefits, including the surcharge, equaled \$115,458 during the 2006 fiscal year.

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year 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 232 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 58 days classified employees and 58 days for certified employees. In addition, certified employees who retire at thirty years of service and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 58 days.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 15 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2006 were as follows:

	Interest Rate	Principal Outstanding at July 1, 2005	Additions	Deletions	Principal Outstanding at June 30, 2006	Amount Due in One Year
<u>Governmental Activities:</u>						
Energy Conservation Note	4.85%	\$500,000	\$0	\$155,000	\$345,000	\$25,000
Bonds - Buildings	5.90%	855,000	0	35,000	820,000	35,000
Bonds - Buses	5.38%	122,000	0	49,000	73,000	53,000
Bonds - Buildings and Improvements	4.75%	7,989,550	0	0	7,989,550	20,000
Premium on Bonds Issued		188,749	0	6,292	182,457	6,292
Capital Leases Payable		215,922	233,717	64,495	385,144	53,080
Compensated Absences		805,143	314,956	144,574	975,525	29,109
Total Governmental Activities Long-Term Liabilities		<u>\$10,676,364</u>	<u>\$548,673</u>	<u>\$454,361</u>	<u>\$10,770,676</u>	<u>\$221,481</u>

Energy Conservation Note - In December, 1997, Fairfield Union Local School District issued general obligation notes for H. B. 264 energy improvements. The notes were issued for \$1,047,892 at 4.4% interest and mature December 2005. The balance of this debt was refinanced in November, 1998 extending the payment schedule an additional five years. In June, 1999 the District issued additional general obligation notes for H. B. 264 energy improvements. The notes were issued for \$425,000 at 4.85% interest and mature December, 2013.

General Obligation Bonds - Buildings -The \$820,000 of outstanding general obligation bonds relate to two projects. In 1993, bonds were issued for the purpose of an addition, remodeling and equipping the middle school building and improving the site thereof and an activity center at the high school. The bonds were issued for \$1,150,000 at 5.9% interest and mature December, 2018. These bonds are in full compliance with the general laws of the State of Ohio, particularly Section 113.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

General Obligation Bonds - Buses -In February of 1996, the District issued \$260,000 in general obligation bus bonds for the purchase of five school buses. These bonds have an average interest of 5.38% and mature in 2007. In February of 1998, the District issued \$164,000 in general obligation bus bonds for the purchase of school buses. The bonds have an average interest of 5% and mature in 2008.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 15 - LONG-TERM LIABILITIES - (Continued)

General Obligation Bonds - Buildings and Improvements - In April 2005, general obligation bonds at 4.75% interest were issued in the amount of \$7,989,550, as a result of the District being approved for school facilities funding through the State Department of Education for the renovation of the Junior-Senior High School Building and to begin the design process for three new buildings. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 3 mill levy in November 2004. Of the 3 mill levy, 2.5 mills is used for the retirement of the bonds that were issued and are in effect for thirty years. The remaining .5 mill is used for repairs and maintenance of the facility. As a part of this funding process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the thirty year period expires. If the District's adjusted valuation per pupil increase above the state-wide median adjusted valuation during the thirty year period, the District may become responsible for repayment of a portion of the State's contribution.

The District's notes and bonds are paid from the Bond Retirement Debt Service Fund. The capital leases are all paid from the General Fund. The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was \$6,148,186 with an unvoted debt margin of \$171,175 at June 30, 2006.

The annual requirements to retire the energy conservation note and general obligation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Energy Conservation Note	Building Bonds	Bus Bonds	Building & Improvement Bonds	Total
2007	\$41,126	\$82,347	\$56,815	\$399,360	\$579,648
2008	44,793	85,135	21,000	408,235	559,163
2009	48,217	82,775	0	411,685	542,677
2010	51,397	90,120	0	429,435	570,952
2011	54,336	92,022	0	431,560	577,918
2012-2016	183,095	478,326	0	2,418,300	3,079,721
2017-2021	0	272,420	0	2,781,675	3,054,095
2022-2026	0	0	0	3,076,099	3,076,099
2027-2031	0	0	0	3,415,035	3,415,035
2032-2036	0	0	0	2,211,031	2,211,031
Total Debt Payments	422,964	1,183,145	77,815	15,982,415	17,666,339
Less: Amount Representing Interest	77,964	363,145	4,815	7,992,865	8,438,789
Total Principal	<u>\$345,000</u>	<u>\$820,000</u>	<u>\$73,000</u>	<u>\$7,989,550</u>	<u>\$9,227,550</u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

During the year, the District entered into eight new capital leases for the acquisition of a copiers and school buses. The lease agreements are accounted for as program/function expenditures in the General and Building Funds with an offsetting amount reported as an other financing source, inception of capital lease. The District also had other capital leases outstanding from prior years. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability has been recorded as a long-term obligation. Principal payments in fiscal year 2006 totaled \$58,169. The District also had \$6,326 of capital lease trade-ins during fiscal year 2006.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2006.

Fiscal Year Ending June 30,	Lease Payments
2007	\$73,593
2008	73,899
2009	73,298
2010	60,932
2011	43,368
2012-2016	135,191
Total Debt Payments	460,281
Less: Amount Representing Interest	75,137
Total Principal	<u>\$385,144</u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 17 - INTERFUND ACTIVITY

As of June 30, 2006, transfers were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$286,020
Building Fund	45,117	0
<i>Other Governmental Funds:</i>	18,868	0
Summer Intervention		
Bond Retirement	222,035	0
Total Other Governmental Funds	240,903	0
Totals	<u>\$286,020</u>	<u>\$286,020</u>

Transfers are generally used to either (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Bond Retirement Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year ended 2006, the District made a transfer of \$18,868 from the General Fund to the Summer Intervention Special Revenue Fund to subsidize summer school operations.

During fiscal year ended 2006, the District made a transfer of \$222,035 from the General Fund to the Bond Retirement Debt Service Fund to make debt payments.

NOTE 18 - STATUTORY SET-ASIDES

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2006:

	Textbooks	Capital Improvements	Totals
Set-Aside Balance as of July 1, 2005	(\$152,830)	\$0	(\$152,830)
Current Year Set-Aside Requirement	285,036	285,036	570,072
Qualifying Disbursements	(429,285)	(501,863)	(931,148)
Total	<u>(297,079)</u>	<u>(216,827)</u>	<u>(513,906)</u>
Set-Aside Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>	
Total Restricted Assets			<u>\$0</u>

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 18 - STATUTORY SET-ASIDES - (Continued)

Although the District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts, only the excess in the textbook reserve account can be carried forward to offset future years' textbook set-aside requirements. Each reserve must be represented by restricted cash at year-end and carried forward to be used for the same purposes in future years.

NOTE 19 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Education Council (MEC)

Metropolitan Education Council, is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

Fairfield County Council for Educational Collaboration

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school system and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council. The District appoints the superintendent to be its representative to the Board of Directors of this council. The District has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration.

South Central Ohio Insurance Consortium (SCOIC)

South Central Ohio Insurance Consortium is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

FAIRFIELD UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 19 - JOINTLY GOVERNED ORGANIZATION - (Continued)

Central Ohio Special Education Regional Resource Center (COSERRC)

Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts in Central Ohio. The District participates in services that assist the District in complying with Mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the District. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERRC.

NOTE 20 - INSURANCE PURCHASING POOL

Shakley Unservile Inc. Worker's Compensation Group Rating Plan

The District participates in a Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool with the Shakley Company. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 21 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

NOTE 22 - SCHOOL FUNDING

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 23 - SUBSEQUENT EVENTS

The District has been approved to participate in the Ohio School Facilities Construction Program. The total project cost is set at \$52,747,162, with the local share being \$14,769,205. In addition, the District has elected to fund a Local Initiative in the amount of \$2,518,939 for a total local share of \$17,521,660.

In addition, the District has issued over \$8,000,000 in debt since year end to fund the remaining portion of the local share.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Fairfield Union Local School District
7698 Main Street
West Rushville, Ohio 43163

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates LLC
December 28, 2006



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

Board of Education
Fairfield Union Local School District
7698 Main Street
West Rushville, Ohio 43163

Compliance

We have audited the compliance of the Fairfield Union Local School District, Fairfield County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

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

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

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

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
December 28, 2006

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal grantor/Pass through grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass through number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Pass-through State Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550		\$ -	\$ 61,016	\$ -	\$ 60,011
School Breakfast Program	10.553	046870-05PU	22,402	-	22,402	-
National School Lunch Program	10.555	046870-LLP4	161,493	-	161,493	-
Total U.S. Department of Agriculture - Nutrition Cluster			<u>183,895</u>	<u>61,016</u>	<u>183,895</u>	<u>60,011</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Pass-through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	84.010	046870-C1S1	155,120	-	158,503	-
Special Education-Grants to States - Title VI-B	84.027	046870-6BSF	362,746	-	360,798	-
Safe and Drug Free Schools, Title IV	84.186	046870-DRS1	8,655	-	8,863	-
Innovative Education Program Strategy, Title V	84.298	046870-C2S1	6,363	-	6,510	-
Title II-D Technology Fund	84.318	046870-TJS1	2,568	-	3,287	-
Title II-A - Improving Teacher Quality	84.367	046870-TRS1	92,699	-	90,390	-
Total U.S. Department of Education			<u>628,151</u>	<u>-</u>	<u>628,351</u>	<u>-</u>
<u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u>						
<i>Pass-through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Title XXI - State Children's Health Insurance Program	93.767		1,287		1,287	
Title XIX - Medicaid	93.778		8,047		8,047	
Total Department of Job and Family Services			<u>9,334</u>	<u>-</u>	<u>9,334</u>	<u>-</u>
Totals			<u>\$ 821,380</u>	<u>\$ 61,016</u>	<u>\$ 821,580</u>	<u>\$ 60,011</u>

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) General

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Fairfield Union Local School District (District) as the primary government. The District's reporting entity is defined in Note 1 to the District's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies is included on the Schedule.

(2) Basis of Accounting

The accompanying Schedule is presented on a cash basis of accounting in which revenues are recognized when received and expenses are recognized when paid.

(3) Noncash Programs

The District values its noncash programs (National School Lunch Program) on the basis of the value of the goods received during the fiscal year.

(4) Revenue

The revenue balances are reported net of refunds to the governmental agency.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster Part B - IDEA CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

FAIRFIELD UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2007