



**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the Lancaster-Fairfield Community School, Fairfield County, Ohio (the LFCS), a component unit of the Lancaster City School District, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the LFCS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lancaster-Fairfield Community School, Fairfield County, Ohio, as of June 30, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of the LFCS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

November 1, 2007

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the Lancaster-Fairfield Community School's (LFCS) financial performance provides an overall review of the LFCS's financial activities for the fiscal year ended June 30, 2007. Readers should also review the basic financial statements and notes to enhance their understanding of the LFCS's financial performance.

Highlights

LFCS completed its third year of operation during fiscal year 2007 as a seventh through twelfth grade Community school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year but averaged 56 students.

Key highlights for fiscal year 2007 are as follows:

- Net assets increased \$4,624.
- LFCS had an operating loss of \$41,716 compared to an operating loss of \$66,299 in fiscal year 2006.
- Total assets increased \$103,779 or 97 percent, due to a \$99,154 increase in current and other assets and a \$4,625 increase in capital assets.
- Total liabilities increased \$99,155 due mainly to amounts owed to the Lancaster City School District (the Sponsor), to the Fairfield County Juvenile Department, and to the Fairfield County Educational Service Center for contract services during fiscal year 2007. LFCS also received overpayments in State funding of \$7,424 which is reported as deferred revenue.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LFCS did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

LFCS uses enterprise presentation for all of its activities.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 1 provides a summary of LFCS's net assets for 2007 compared to 2006.

Table 1
Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<u>Assets:</u>			
Current and Other Assets	\$206,479	\$107,325	\$99,154
Capital Assets	4,625	0	4,625
Total Assets	<u>211,104</u>	<u>107,325</u>	<u>103,779</u>
<u>Liabilities:</u>			
Current Liabilities	<u>148,352</u>	<u>49,197</u>	<u>99,155</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	4,625	0	4,625
Unrestricted	<u>58,127</u>	<u>58,128</u>	<u>(1)</u>
Total Net Assets	<u><u>\$62,752</u></u>	<u><u>\$58,128</u></u>	<u><u>\$4,624</u></u>

Total assets increased \$103,779. The increase was due to an increase in ending cash balances of \$77,892, an increase in prepaids of \$1,292, an increase in intergovernmental receivables of \$19,970, and the purchase of five computers of \$4,625. Liabilities increased \$99,155. Increases in current liabilities are due to the LFCS owing fiscal year 2007 contract service payments to Lancaster City School District (the Sponsor), to the Fairfield County Juvenile Department, and to the Fairfield County Educational Service Center. LFCS also received overpayments in State funding of \$7,424 which is reported as deferred revenue.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007.

Table 2
Change in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$374,433	\$396,476	(\$22,043)
<u>Non-Operating Revenues:</u>			
Operating Grants	40,863	3,000	37,863
Interest Revenue	5,427	1,396	4,031
Other Non-Operating Revenue	<u>50</u>	<u>0</u>	<u>50</u>
Total Revenues	<u>420,773</u>	<u>400,872</u>	<u>19,851</u>
<u>Operating Expenses:</u>			
Purchased Services	415,974	461,202	(45,228)
Materials and Supplies	175	322	(147)
Other Operating Expenses	<u>0</u>	<u>1,251</u>	<u>(1,251)</u>
Total Expenses	<u>416,149</u>	<u>462,775</u>	<u>(46,626)</u>
Total Increase (Decrease) in Net Assets	<u>\$4,624</u>	<u>(\$61,903)</u>	<u>\$66,477</u>

Fiscal year 2007 reflects a decrease in foundation revenues and expenses. The increase in operating grants was due to the LFCS receiving additional grants from the Ohio Department of Education for fiscal year 2007. The operating grant monies in 2007 were for the Educational Management Information Services (EMIS), Title I, Core, Title II-A, Title II-D, Title IV-A, Title V, and Special Education IDEA B. During fiscal year 2006 LFCS only received EMIS monies. Due to the improvement in interest rates, the LFCS received an increase in interest revenues of \$4,031. The purchased services main expenses represent costs for staffing services with the Fairfield County Juvenile Court and the Fairfield County Educational Service Center.

Budgeting

LFCS is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

During fiscal year 2007, LFCS purchased five computers totaling \$4,625. There was no accumulated depreciation for the assets because they were purchased in late June 2007. LFCS has no buildings because they utilize facilities provided by the Fairfield County Juvenile Court.

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Debt

LFCS has not incurred any debt.

Current Issues

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

Contacting the LFCS's Financial Management

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 163,353
Intergovernmental Receivable	41,834
Prepaid Items	1,292
Total Current Assets	<u>206,479</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	4,625
Total Assets	<u>211,104</u>
 <u>Liabilities:</u>	
Accounts Payable	5,440
Intergovernmental Payable	135,488
Deferred Revenue	7,424
Total Liabilities	<u>148,352</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,625
Unrestricted	58,127
Total Net Assets	<u>\$ 62,752</u>

See accompanying notes to the basic financial statements

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Operating Revenues:</u>	
Foundation	<u>\$ 374,433</u>
<u>Operating Expenses:</u>	
Purchased Services	415,974
Materials and Supplies	175
Total Operating Expenses	<u>416,149</u>
Operating Loss	(41,716)
<u>Non-Operating Revenues:</u>	
Operating Grants	40,863
Interest Revenue	5,427
Other Non-Operating Revenue	50
Total Non-Operating Revenues	<u>46,340</u>
Change in Net Assets	4,624
Net Assets at Beginning of Year	58,128
Net Assets at End of Year	<u><u>\$ 62,752</u></u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$	380,236
Cash Payments to Suppliers for Goods and Services		(339,814)
Other Non-Operating Revenues		23,457
Net Cash Provided By Operating Activities		63,879

Cash Flows from Noncapital Financing Activities:

Operating Grants Received		8,586
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Cash Flows from Investing Activities:

Interest on Investments		5,427
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Net Increase in Cash and Cash Equivalents		77,892
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Cash and Cash Equivalents Beginning of Year		85,461
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Cash and Cash Equivalents End of Year		163,353
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Reconciliation of Operating Loss to

Net Cash Provided By Operating Activities:

Operating Loss		(41,716)
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Adjustments to Reconcile Operating Loss

to Net Cash Used for Operating Activities:

Other Non-Operating Revenues		50
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Changes in Assets and Liabilities:

Decrease in Intergovernmental Receivable		12,307
Increase in Prepaid Items		(1,292)
Increase in Accounts Payable		815
Increase in Intergovernmental Payable		87,912
Increase in Deferred Revenue		5,803

Net Cash Provided By Operating Activities	\$	63,879
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See accompanying notes to the basic financial statements

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**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Note 1 - Description of the School

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

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

Prior to June 28, 2007, the LFCS operated under the direction of a seven-member Board of Directors made up of three-members from the Lancaster City School District, one member from a local school district within Fairfield County, one member from the Fairfield County Juvenile Court, the superintendent of the Fairfield County Educational Service Center, and one member from the Fairfield County Job and Family Services department. On March 30, 2007, House Bill 79 became effective which updated Ohio Revised Code (ORC) sections 3314.02, 3314.03, and 3314.014 and created ORC section 3314.026. These ORC sections revised the procedures for the selection of Board of Directors for community schools. Under advisement from LFCS's legal counsel, the by-laws for the appointment of the Board of Directors were amended. On June 28, 2007, the by-laws of LFCS were amended and they began to operate under the direction of a five-member Board of Directors from the public sector appointed by the Sponsor. LFCS is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose it's will on the LFCS. The Sponsor can suspend the LFCS's operations for any of the following reasons: 1) The LFCS's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LFCS's failure to meet generally accepted standards of fiscal management, 3) The LFCS's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFCS and the children it serves. During fiscal year 2007, LFCS paid purchased services to the Fairfield County Juvenile Court and the Fairfield County Educational Service Center for providing staffing services. Thus, LFCS did not have any employees. LFCS used the facilities of the Fairfield County Juvenile Court.

Note 2 - Summary of Significant Accounting Policies

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by LFCS is reflected as "Cash and Cash Equivalents" on the statement of net assets. LFCS had no investments during the fiscal year ended June 30, 2007.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the fiscal year in which services are consumed.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets

LFDA's capital assets during fiscal year 2007 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFDA maintains a capitalization threshold of five hundred dollars. All of LFDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LFCS or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFCS applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

I. Restricted Assets

Certain resources set aside due to restricted state and federal grants.

J. Operating Revenues and Expenses

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

K. Estimates

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LFCS's deposits may not be returned. LFCS does not have a deposit policy for custodial credit risk. At June 30, 2007, the bank balance of LFCS's deposits was \$164,644. \$100,000 of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$64,644 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by LFCS.

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

Note 4 - Receivables

Receivables at June 30, 2007, consisted of intergovernmental grants and an intergovernmental receivable from the Fairfield County Juvenile Court. This receivable was due to the Fairfield County Juvenile Court owing a reimbursement for their employees STRS payments being processed to STRS through the State Foundation payments of the LFCS. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Title II-D Grant	\$140
Drug Free School Grant	143
Title V Grant	281
Improving Teacher Quality Grant	893
STRS Reimbursement owed from Fairfield County	9,557
Title I Grant	13,465
IDEA Part B Grant	<u>17,355</u>
Total	<u><u>\$41,834</u></u>

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Computer Equipment	\$0	\$4,625	\$0	\$4,625
Less Accumulated Depreciation	0	0	0	0
Capital Assets, Net	<u>\$0</u>	<u>\$4,625</u>	<u>\$0</u>	<u>\$4,625</u>

Note 6 - Risk Management

LFCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2007, LFCS contracted with Hilb, Rogal, and Hobbs for insurance coverage with the Netherlands Insurance Company. The types and amounts of coverage provided are as follows:

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

Note 6 - Risk Management (Continued)

General Liability:	
Each Occurrence	\$1,000,000
General Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	1,000,000
Aggregate	1,000,000
Automobile Liability	1,000,000
Errors and Omissions:	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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

Note 7 – Purchased Services

For fiscal year 2007, purchased service expenses were for the following services:

Type	Amount
Legal and Audit Services	\$6,081
Tutoring Services	2,176
Metropolitan Educational Council for computer services	6,517
Bank Charges	99
Lancaster City School District for staffing services	13,320
Fairfield County Educational Service Center for staffing services	117,878
Fairfield County Juvenile Court for staffing and EMIS services	269,903
Total	<u><u>\$415,974</u></u>

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

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

**LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

LFCS signed a contract with the Fairfield County Educational Service Center for services of an Occupational Work Experience teacher.

Note 9 – Related Party Transactions

LFCS's Sponsor, Lancaster City Schools, appoints all five Board of Directors. During fiscal year 2007, LFCS made no payments to the Sponsor but had a payable to the Sponsor as of June 30, 2007 for \$13,320 for staffing services.

Note 10 - Contingencies

A. Grants

LFCS received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the LFCS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the LFCS at June 30, 2007.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFCS. These reviews are conducted to ensure LFCS is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2007, LFCS repaid \$1,621 to the State for overpayments received in fiscal year 2006. The fiscal year 2007 review resulted in the discovery of an overpayment to LFCS in the amount of \$7,424. This amount has been reflected as deferred revenue and will be deducted from foundation funding in fiscal year 2008.

C. Litigation

A suit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on LFCS cannot presently be determinable.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the Lancaster-Fairfield Community School, Fairfield County, Ohio, (the LFCS), a component unit of the Lancaster City School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LFCS's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the LFCS's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the LFCS's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the LFCS's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the LFCS's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the LFCS's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the LFCS's management in a separate letter dated November 1, 2007.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
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Compliance and Other Matters

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

We intend this report solely for the information and use of the management, Board of Directors, and the Sponsor. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 1, 2007



Mary Taylor, CPA
Auditor of State

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 6, 2007