LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic 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, 2008, 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 that 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 Lancaster-Fairfield Community School, Fairfield County, Ohio, as of June 30, 2008, and the changes in its 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 December 5, 2008, on our consideration of the LCFS'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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 5, 2008

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, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the LFCS's financial performance.

Highlights

LFCS completed its fourth year of operation during fiscal year 2008 as a seventh through twelfth grade Community school for students placed by the Fairfield County Juvenile Court. Enrollment varied during the year but averaged 57 students.

Key highlights for fiscal year 2008 are as follows:

- Net assets increased $41,307.

- LFCS had an operating loss of $12,629 compared to an operating loss of $41,716 in fiscal year 2007.

- Total assets decreased $99,226 or 47 percent, due mainly to a $108,899 decrease in cash and cash equivalents which were offset by a $10,706 increase in intergovernmental receivables.

- Total liabilities decreased $140,533 due mainly to LFCS paying all fees 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 for fiscal year 2008 during fiscal year 2008. For fiscal year 2007, LFCS did not pay a large portion of these fees until fiscal year 2008. During fiscal year 2007 the LFCS received overpayments in Ohio Department of Education funding of $7,424 which were reported as deferred revenue. The Ohio Department of Education fiscal year 2008 review resulted in an overpayment to LFCS in the amount of $7,819 which is reported as deferred revenue as of June 30, 2008.

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 2008. 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.

Table 1 provides a summary of LFCS's net assets for 2008 compared to 2007.

Table 1
Net Assets

	2008	2007	Change
Assets:			
Current and Other Assets	$108,024	$206,479	($98,455)
Capital Assets	3,854	4,625	(771)
Total Assets	111,878	211,104	(99,226)
Liabilities:			
Current Liabilities	7,819	148,352	(140,533)
Net Assets:			
Invested in Capital Assets	3,854	4,625	(771)
Unrestricted	100,205	58,127	42,078
Total Net Assets	$104,059	$62,752	$41,307

Total assets decreased $99,226. The decrease was due mainly to the decrease in ending cash balances of $108,899 offset by an increase in intergovernmental receivables of $10,706. Liabilities decreased $140,533. Decreases in current liabilities are due to the LFCS paying 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 during fiscal year 2008. In addition, all fiscal year 2008 contract services payments were made during fiscal year 2008. LFCS received overpayments in Ohio Department of Education funding of $7,424 for fiscal year 2007 which was reported as deferred revenue at June 30, 2007. The Ohio Department of Education funding review of fiscal year 2008 resulted in an overpayment to LFCS in the amount of $7,819 which is reported as deferred revenue as of June 30, 2008.

Table 2 reflects the changes in net assets for fiscal year 2008, and comparisons to fiscal year 2007.

Table 2
Change in Net Assets

	2008	2007	Change
Operating Revenues:			
Foundation	$463,782	$374,433	$89,349
Non-Operating Revenues:			
Operating Grants	49,554	40,863	8,691
Interest Revenue	4,382	5,427	(1,045)
Other Non-Operating Revenue	0	50	(50)
Total Revenues	517,718	420,773	96,945
Operating Expenses:			
Purchased Services	473,989	415,974	58,015
Materials and Supplies	1,651	175	1,476
Depreciation	771	0	771
Total Expenses	476,411	416,149	60,262
Total Increase (Decrease) in Net Assets	$41,307	$4,624	$36,683

Fiscal year 2008 reflects an increase in foundation revenues due to the fluctuation of students during the current year compared to the prior year. Purchased service expenses increased due to the increase in foundation revenues. Per the agreement between LFCS and the Fairfield County Juvenile Court, the Fairfield County Juvenile Court is paid 70 percent of foundation revenues for services provided. The increase in operating grants was due to the LFCS receiving additional grants from the Ohio Department of Education for fiscal year 2008. The operating grant monies in 2008 represented amounts received for the Educational Management Information Services (EMIS), Title I, Title II-A, Title II-D, Title IV-A, Title V, and Special Education IDEA B. Due to the decrease in interest rates and the decrease in cash balance held by LFCS, the LFCS realized a decrease in interest revenues of $1,045. The primary purchased services 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. 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.

Capital Assets and Debt Administration

Capital Assets

No capital asset purchases were made during fiscal year 2008. LFCS has a computer inventory totaling $4,625. Accumulated depreciation for fiscal year 2008 was $771. LFCS has no buildings because they utilize facilities provided by the Fairfield County Juvenile Court.

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 Paul Shaw, Interim Treasurer, Lancaster-Fairfield Community School, 345 Mulberry Street, Lancaster, Ohio 43130. Or E-Mail at pshaw@loganhocking.k12.oh.us.

LANCASTER-FAIRFIELD COMMUNITY SCHOOL
FAIRFIELD COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:		
Current Assets:		
Cash and Cash Equivalents	$	54,454
Intergovernmental Receivable		52,540
Prepaid Items		1,030
Total Current Assets		108,024
Noncurrent Assets:		
Depreciable Capital Assets, Net of Accumulated Depreciation		3,854
Total Assets		111,878
Liabilities:		
Deferred Revenue		7,819
Total Liabilities		7,819
Net Assets:		
Invested in Capital Assets		3,854
Unrestricted		100,205
Total Net Assets	$	104,059

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, 2008

Operating Revenues:		
Foundation	$	463,782
Operating Expenses:		
Purchased Services		473,989
Materials and Supplies		1,651
Depreciation		771
Total Operating Expenses		476,411
Operating Loss		(12,629)
Non-Operating Revenues:		
Operating Grants		49,554
Interest Revenue		4,382
Total Non-Operating Revenues		53,936
Change in Net Assets		41,307
Net Assets at Beginning of Year		62,752
Net Assets at End of Year	$	104,059

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, 2008

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Foundation	$ 439,397
Cash Payments to Suppliers for Goods and Services	(611,681)
Other Non-Operating Revenues	34,337
Net Cash Used for Operating Activities	(137,947)
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received	29,291
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(4,625)
Cash Flows from Investing Activities:	
Interest on Investments	4,382
Net Increase in Cash and Cash Equivalents	(108,899)
Cash and Cash Equivalents Beginning of Year	163,353
Cash and Cash Equivalents End of Year	54,454
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(12,629)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation Expense	771
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	9,557
Decrease in Prepaid Items	262
Decrease in Accounts Payable	(815)
Decrease in Intergovernmental Payable	(135,488)
Increase in Deferred Revenue	395
Net Cash Used for Operating Activities	$ (137,947)

See accompanying notes to the basic financial statements

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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.

The LFCS operates 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 2008, 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.

LFCS participates in the Ohio School Plan which is considered an insurance purchasing pool. This organization is presented in Note 13 to the basic financial statements.

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2008.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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.

G. Capital Assets

LFDA's capital assets during fiscal year 2008 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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. 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.

J. 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 – Changes in Accounting Principles

For 2008, LFCS has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for the STRS post-employment healthcare plans in the amount of $150 which is the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 - 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, 2008, the bank balance of LFCS's deposits was $59,324. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by LFCS.

Note 5 - Receivables

Receivables at June 30, 2008, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Title II-D Grant	$419
Drug Free School Grant	337
Title V Grant	288
Improving Teacher Quality Grant	1,479
Title I Grant	31,378
IDEA Part B Grant	18,639
Total	$52,540

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Computer Equipment	$4,625	$0	$0	$4,625
Less Accumulated Depreciation	0	(771)	0	(771)
Capital Assets, Net	$4,625	($771)	$0	$3,854

Note 7 - 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 2008, LFCS joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

Note 7 - Risk Management (Continued)

The types and amounts of coverage provided are as follows:

Educational General Liability:	
General Aggregate Limit	$4,000,000
Sexual Abuse Injury	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury	2,000,000
Employee Benefits Injury:	
Each Occurrence	2,000,000
Aggregate	4,000,000
Employer's Liability for Each Accident	2,000,000
Errors and Ommissions:	
Each Occurrence (deductible $2,500)	2,000,000
Aggregate Limit (deductible $2,500)	4,000,000
Employment Practices Injury:	
Each Occurrence (deductible $2,500)	2,000,000
Aggregate (deductible $2,500)	4,000,000

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 8 – Purchased Services

For fiscal year 2008, purchased service expenses were for the following services:

Type	Amount
Legal and Audit Services	$11,807
Tutoring Services	4,704
Metropolitan Educational Council for computer services	10,514
Treasurer and Board Member bonding	1,292
Bank Charges	105
Lancaster City School District miscellaneous services	14
Fairfield County Educational Service Center for staffing services	116,979
Fairfield County Juvenile Court for staffing and EMIS services	328,574
Total	$473,989

Note 9 – 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 teach and 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.

LFCS signed a contract with the Fairfield County Educational Service Center for some teaching services also.

Note 10 – Related Party Transactions

LFCS's Sponsor, Lancaster City Schools, appoints all five Board of Directors. During fiscal year 2008, LFCS had only a miscellaneous reimbursement to the Sponsor for $14.

Note 11 – State Teachers Retirement System Plan

LFCS has contracted with the Fairfield County Juvenile Court to provide employee services and to pay those employees. However, these contract services do not relieve LFCS of the obligation for remitting pension contributions. The retirement system considers LFCS as the Employer-of-Record and LFCS is ultimately responsible for remitting retirement contributions to the State Teachers Retirement System.

Plan Description - Certified teachers, employed by LFCS (Employer-of-Record), participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service or an allowance based on member contributions and earned interest matched by STRS Ohio funds, times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Note 11 – State Teachers Retirement System Plan (Continued)

Funding Policy - For year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. LFCS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

LFCS's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006 were $26,773, $10,373, and $8,892, respectively; 79 percent has been contributed for fiscal year 2008 and 100 percent for years 2007 and 2006. No contributions to the DC or Combined plans for year 2008 were made by the County or by the plan members. $5,716 represents the unpaid contribution for fiscal year 2008.

Note 12 – State Teachers Retirement System Post Employment Benefits

Plan Description – LFCS contributes to the cost-sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or the combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. LFCS's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were $2,059, $798 and $684 respectively; 79 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 13 – Pool

LFCS participates in the Ohio School Plan (OSP), and insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a twelve member Board of Directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

Note 14 - 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, 2008.

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 2008, LFCS repaid $7,424 to the Ohio Department of Education for overpayments received in fiscal year 2007. The fiscal year 2008 Ohio Department of Education review resulted in the discovery of an overpayment to LFCS in the amount of $7,819. This amount has been reflected as deferred revenue and will be deducted from foundation during fiscal year 2009.

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 basic financial statements of the Lancaster-Fairfield Community School, Fairfield County, Ohio, (the LFCS), a component unit of Lancaster City School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. 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.

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 did note a certain noncompliance or other matter that we reported to the LFCS's management in a separate letter dated December 5, 2008.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 5, 2008

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
JANUARY 6, 2009

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