



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

February 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairborn City School District, Greene County, (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 basic financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying basic financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying basic financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairborn City School District, Greene County, as of June 30, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these concerns, are described in Note 13.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

November 2, 2006

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Fairborn City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for fiscal year 2006 are as follows:

- In total, net assets decreased by \$1,407,621 or 17.35%, a significant change from the prior fiscal year. The fund most affected by the decrease in cash and cash equivalents was the Building Repair Fund. This was due to construction projects during fiscal year 2006.
- The significant cost cutting in personnel and the reorganization of the district for school year 2004-05 carried through to the school year 2005-06 resulting in a slight increase in the general fund's year-end fund balance.
- The District's revenues grew at a slower rate than expenditures. The District's primary revenue sources (property and personal income taxes and unrestricted state entitlements) were \$37,492,057 or 61.8% of the total cash received during the fiscal year. Dependence on these revenue sources is significant.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Fairborn City School District, the General Fund is the most significant fund.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may also include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs are reported here including instruction, support services, non-instructional services, food services, extracurricular activities, and capital outlay disbursements.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund, Bond Service, and the Building Repair Fund.

Governmental Funds-Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds-Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal year 2005:

Table 1 Net Assets

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash and Cash Equivalentents	\$6,704,801	\$8,112,422
Total Assets	<u>\$6,704,801</u>	<u>\$8,112,422</u>
Net Assets		
Restricted for:		
Capital Projects	\$ 742,120	\$2,228,095
Debt Service	1,141,205	763,995
Scholarship	187,030	181,452
Set-aside	478,922	263,367
Other Purposes	1,561,655	1,987,294
Unrestricted	<u>2,593,869</u>	<u>2,688,219</u>
Total Net Assets	<u>\$6,704,801</u>	<u>\$8,112,422</u>

As mentioned previously, total net assets decreased \$1,407,621 or 17.35 percent with the primary reason contributing to the decrease in cash balances being the construction projects at the High School and Baker Middle School for science labs.

The school district is extremely dependent on unrestricted state funding. In FY 2003 the state funding began to level off and then decrease. Before FY 2003 it was very common to receive any where from a 5 to 12 percent increase in state funding. Even though enrollment had been declining during the same time state funding had been increasing, staffing levels increased. In FY 2006 state funding decreased by \$207,414. This resulted in severe measures being taken in July 2003, beginning with a reduction in force in order to get expenditures in line with revenue. The district also drastically reduced the purchasing of textbooks, computers and instructional supplies. In April and May of 2004, the district made another reduction in force of 102 positions which equated to \$4,700,103. The effect of those severe measures resulted in the FY 2005 increase of net assets. In FY 2006, the district operated with money saved from the previous year.

The District was placed in Fiscal Caution on February 23, 2004 and in Fiscal Watch on May 25, 2004 by the Ohio Department of Education and the Auditor of the State of Ohio. As of June 30, 2006, the District is still in Fiscal Watch.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

**Table 2
Change in Net Assets**

	2006	2005
Receipts:		
Program Receipts		
Charges for Services and Sales	\$ 1,416,014	\$ 1,482,844
Operating Grants and Contributions	3,662,147	3,376,306
Capital Grants	10,718	76,758
Total Program Receipts	5,088,879	4,935,908
General Receipts		
Property Taxes Levied for General Purposes	15,671,687	14,869,210
Property Taxes Levied for Debt Service	1,397,595	1,365,639
Refund Bonds Issued	15,614,987	
Premium on Refunded Issue	1,577,645	
Grants and Entitlements	20,422,775	21,249,464
Sale of Capital Assets	4,138	4,659
Interest	450,154	205,461
Miscellaneous	418,491	269,147
Total General Receipts	55,557,472	37,963,580
Total Receipts	60,646,351	42,899,488
Disbursements:		
Instruction:		
Regular	17,682,456	17,726,049
Special	5,252,905	5,151,637
Vocational	1,450	1,981
Other Instruction	2,376,448	1,614,466
Support Services:		
Pupil	2,290,790	2,422,573
Instructional Staff	1,921,337	1,597,624
Board Of Education	61,588	56,970
Administration	2,700,770	2,770,127
Fiscal	789,640	732,306
Business	248,647	144,395
Operation and Maintenance of Plant	3,665,234	3,252,844
Pupil Transportation	2,341,210	1,841,311
Central	355,774	405,353
Non-Instructional Services:		
Food Services	1,310,628	1,240,447
Community Services	145,714	101,479
Extracurricular Activities	639,791	566,576
Facilities Acquisition & Construction	1,550,051	77,916
Debt Service:		
Payment on Refunded Bonds & Issuance Cost	17,192,632	
Principal Retirement	860,600	830,600
Interest and Fiscal Charges	666,307	1,153,918
Total Disbursements	62,053,972	41,688,572
Increase in Net Assets	(\$ 1,407,621)	\$ 1,210,916

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Program receipts only represent 8.4% of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition and fees and extracurricular activities, and food service sales.

General receipts represent 91.6% of the district's total receipts and of this amount about 36.8% is the result of unrestricted grants and entitlements, which primarily represents state foundation resources. Property and personal income taxes also make up a large portion of the District's general receipts (30.7%). This year, the District refunded bonds. Proceeds from that is 30.9% of general receipts. The remaining 1.6% consists of tuition, athletic participation fees, investment income, ROTC funding, Impact aid funding and various other one time refunds and reimbursements.

The major program disbursements for governmental activities are for instruction, which accounts for around 41% of all governmental disbursements. Other programs which support the instruction process, including pupil, instructional staff, and pupil transportation account for approximately 11% of governmental disbursements. Maintenance of the District's facilities also represents a significant expense, 6%. Therefore, 58% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006
Instruction:		
Regular	\$17,682,456	\$17,205,720
Special	5,252,905	3,869,421
Vocational	1,450	1,450
Other Instruction	2,376,448	2,052,346
Support Services:		
Pupil	2,290,790	2,211,564
Instructional Staff	1,921,337	1,068,767
Board of Education	61,588	61,588
Administration	2,700,770	2,605,432
Fiscal	789,640	789,640
Business	248,647	248,647
Operation and Maintenance of Plant	3,665,234	3,665,234
Pupil Transportation	2,341,210	2,302,937
Central	355,774	325,364
Food Services	1,310,628	(76,731)
Community Services	145,714	9,257
Extracurricular Activities	639,791	354,867
Facilities Acquisition & Construction	1,550,051	1,550,051
Debt Service		
Payment on Refunded Bonds & Issuance Cost	17,192,632	17,192,632
Principal Retirement	860,600	860,600
Interest and Fiscal Charges	666,307	666,307
Total Governmental Activities	\$62,053,972	\$56,965,093

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The dependence upon tax receipts and unrestricted state entitlements is apparent all of instruction activities are supported through taxes and unrestricted state entitlements. However, it should be noted that special instruction activities are largely provided for through program receipts by over 26%. This is the result of operating grants and contributions restricted for special instruction purposes.

Over 100% of food services were covered by program receipts for fiscal year 2006. This is due to cafeteria sales, but mostly to state and federal subsidies and donated commodities for food service. About 45% of extracurricular activities disbursements are covered by program receipts. This is the result of music and athletic fees, ticket sales and gate receipts.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. Total governmental funds had receipts of \$43,453,719 and disbursements \$45,082,745. The greatest change within governmental funds occurred within the Building Repair Fund as the result of construction projects during FY 2006. The School District has three major funds, the General Fund, Bond Service Fund, and Building Repair Fund.

General Fund Budgeting Highlights

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

During fiscal year 2006 the District amended its General Fund budget as needed. Final budgeted receipts, in the amount of \$36,973,656 were slightly above original budgeted receipts, in the amount of \$36,911,735 a change of less than .2%. The changes from final budgeted receipts to actual receipts received, \$104,452, was also not significant.

Final disbursements were budgeted at \$37,537,522 while actual disbursements were \$36,442,172. The District budgeted monies for supplies and materials that were not spent and also budgeted monies for salaries and benefits that were taken out of grants instead of the general fund.

Debt

At June 30, 2006, the School District's outstanding debt included General Improvement Bonds, Energy Conservation Bonds and Notes, and a School Bus Acquisition Bond in the amount of \$17,225,921. For further information regarding the School District's debt, refer to Note 5 to the basic financial statements.

Current Issues

The challenge for all school districts is to provide quality education with fewer monies available to spend. This is even truer for the Fairborn City School District. The district relies on local taxes and state support. That state support has decreased over the past several years and as a result the District has had to reduce expenses to keep solvent. The District made significant reductions in expenditures for FY 2004 and 2005 and continues to right size staff each year, due to declining enrollment. In FY 2003 the District was funded based on 5,268 students, in FY 2004 that number was 5,058, in FY 2005 that number was 4,626 and in FY 2006 that number was 4,559. The current five year forecast projects a deficit in FY 2008.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Tammy Emrick, Treasurer, Fairborn City Schools, 306 E Whittier Ave, Fairborn, Ohio 45324.

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**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF NET ASSETS- MODIFIED CASH BASIS
JUNE 30, 2006**

	Primary Government	Component Unit
	Governmental Activities	Fairborn Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$6,704,801	\$356,292
Total Assets	6,704,801	356,292
 Net Assets		
Restricted for:		
Capital Projects	742,120	
Debt Service	1,141,205	
Scholarships	187,030	
Set Asides	478,922	
Other Purposes	1,561,655	513
Unrestricted	2,593,869	355,779
Total Net Assets	\$6,704,801	\$356,292

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Primary Government			
	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$17,682,456	\$275,764	\$200,972	
Special	5,252,905		1,383,484	
Vocational	1,450			
Other Instruction	2,376,448	143,886	180,216	
Support Services:				
Pupil	2,290,790		79,226	
Instructional Staff	1,921,337		852,570	
Board of Education	61,588			
Administration	2,700,770		95,338	
Fiscal	789,640			
Business	248,647			
Operation and Maintenance of Plant	3,665,234			
Pupil Transportation	2,341,210	27,555		\$10,718
Central	355,774		30,410	
Food Services	1,310,628	683,885	703,474	
Community Services	145,714		136,457	
Extracurricular Activities	639,791	284,924		
Facilities Acquisition & Construction	1,550,051			
Debt Service				
Payment on Refunded Bonds & Issuance Cost	17,192,632			
Principal Retirement	860,600			
Interest and Fiscal Charges	666,307			
Total Primary Government Activities	\$62,053,972	\$1,416,014	\$3,662,147	\$10,718
Component Unit:				
Fairborn Digital Academy	\$638,809		\$40,256	

General Receipts

Property & Income Taxes Levied for:

 General Purposes

 Debt Service

Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Refunds Bonds Issued

Premium on Refunded Issue

Sale of Capital Assets

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Primary Government	
Net (Disbursements)	
Receipt and Changes	
in Net Assets	
Governmental	Component
Activities	Unit
Governmental	Fairborn
Activities	Digital Academy
(\$17,205,720)	
(3,869,421)	
(1,450)	
(2,052,346)	
(2,211,564)	
(1,068,767)	
(61,588)	
(2,605,432)	
(789,640)	
(248,647)	
(3,665,234)	
(2,302,937)	
(325,364)	
76,731	
(9,257)	
(354,867)	
(1,550,051)	
(17,192,632)	
(860,600)	
(666,307)	
<u>(\$56,965,093)</u>	
	(\$598,553)
\$12,865,100	
1,397,595	
2,806,587	
20,422,775	728,103
15,614,987	
1,577,645	
4,138	
450,154	1,486
418,491	1,479
<u>55,557,472</u>	<u>731,068</u>
(1,407,621)	132,515
8,112,422	223,777
<u>\$6,704,801</u>	<u>\$356,292</u>

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES-MODIFIED CASH BASIS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Service</u>	<u>Building Repair</u>	<u>Other Governmental Activities</u>	<u>Total Governmental Activities</u>
Assets					
Equity in Pooled Cash and Investments	\$2,593,870	\$1,141,205	742,120	1,748,684	\$6,225,879
Restricted Cash and Cash Equivalents	478,922				\$478,922
Total Assets	<u>3,072,792</u>	<u>1,141,205</u>	<u>742,120</u>	<u>1,748,684</u>	<u>6,704,801</u>
Fund Balances					
Reserved for Encumbrances	370,374		609,687	223,050	1,203,111
Reserved for Textbooks	478,922				478,922
Unreserved, Reported in:					
General Fund	2,223,496				2,223,496
Special Revenue Funds				1,338,604	1,338,604
Debt Service Fund		1,141,205			1,141,205
Capital Projects Funds			132,433		132,433
Scholarships				187,030	187,030
Total Fund Balances	<u>\$3,072,792</u>	<u>\$1,141,205</u>	<u>\$742,120</u>	<u>\$1,748,684</u>	<u>\$6,704,801</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN CASH BASIS FUND BALANCES GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Service</u>	<u>Building Repair</u>	<u>Other Governmental Activities</u>	<u>Total Governmental Funds</u>
Receipts:					
Property Taxes	\$12,865,100	\$1,397,595			\$14,262,695
Income Taxes	2,806,587				2,806,587
Intergovernmental	20,321,450	149,512		\$3,624,678	24,095,640
Interest	336,637	16,392	\$59,900	37,225	450,154
Tuition and Fees	306,285			140,920	447,205
Extracurricular Activities	104,214			180,710	284,924
Food Service - Charges for Services				683,885	683,885
Miscellaneous	337,835			80,656	418,491
Total Receipts	37,078,108	1,563,499	59,900	4,748,074	43,449,581
Disbursements:					
Instruction:					
Regular	16,821,776			860,680	17,682,456
Special	3,593,783			1,659,122	5,252,905
Vocational	1,450				1,450
Other	2,016,159			360,289	2,376,448
Support Services:					
Pupils	2,140,172			150,618	2,290,790
Instructional Staff	1,050,315			871,022	1,921,337
Board of Education	61,588				61,588
Administration	2,593,849			106,921	2,700,770
Fiscal	761,300	24,382		3,958	789,640
Operations and Maintenance of Plant	3,661,661			3,573	3,665,234
Support Services Business	248,647				248,647
Pupil Transportation	2,336,401			4,809	2,341,210
Central	272,147			83,627	355,774
Food Services				1,310,628	1,310,628
Community Services				145,714	145,714
Extracurricular Activities	508,374			131,417	639,791
Facilities Acquisition & Construction	4,177		1,545,874		1,550,051
Debt Service:					
Issuance Cost on Refunded Issue		221,405			221,405
Principal Retirement		860,600			860,600
Interest and Fiscal Charges		666,307			666,307
Total Disbursements	36,071,799	1,772,694	1,545,874	5,692,378	45,082,745
Receipts Over/(Under) Disbursements	1,006,309	(209,195)	(1,485,974)	(944,304)	(1,633,164)
Other Financing Sources (Uses):					
Refunded Bonds Issued		15,614,987			15,614,987
Premium on Refunded Issue		1,577,645			1,577,645
Payment on Refunded Bond		(16,971,227)			(16,971,227)
Sale of Assets	4,095			43	4,138
Advances In	43,000			51,953	94,953
Advances Out	(51,953)			(43,000)	(94,953)
Transfers In		365,000		515,245	880,245
Transfers Out	(880,245)				(880,245)
Total Other Financing Sources (Uses)	(885,103)	586,405		524,241	225,543
Total Receipts & Other Sources Over Disbursements & Other Uses	121,206	377,210	(1,485,974)	(420,063)	(1,407,621)
Fund Balances at Beginning of Year	2,951,586	763,995	2,228,094	2,168,747	8,112,422
Fund Balances at End of Year	<u>\$3,072,792</u>	<u>\$1,141,205</u>	<u>\$742,120</u>	<u>\$1,748,684</u>	<u>\$6,704,801</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL-BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$12,335,000	\$12,596,921	\$12,865,100	\$268,179
Income Taxes	2,720,000	2,720,000	2,806,587	86,587
Intergovernmental	21,133,500	20,933,500	20,321,450	(612,050)
Interest	170,000	170,000	336,637	166,637
Tuition and Fees	220,185	220,185	306,285	86,100
Extracurricular Activities	119,000	119,000	104,214	(14,786)
Miscellaneous	174,050	174,050	308,442	134,392
Refund of Prior Year Expenditures	40,000	40,000	29,393	(10,607)
Total receipts	<u>36,911,735</u>	<u>36,973,656</u>	<u>37,078,108</u>	<u>104,452</u>
Disbursements				
Instruction:				
Regular	15,738,323	17,071,343	16,826,828	244,515
Special	3,862,107	3,757,505	3,713,751	43,754
Vocational		6,250	1,450	4,800
Other	1,784,676	2,075,576	2,016,159	59,417
Support Services:				
Pupil	3,108,947	2,304,227	2,161,531	142,696
Instructional Staff	1,187,587	1,132,268	1,107,676	24,592
Board of Education	67,570	75,070	61,588	13,482
Administration	2,830,436	2,798,236	2,629,513	168,723
Fiscal	812,790	802,340	765,663	36,677
Business	240,055	270,555	248,647	21,908
Operation and Maintenance of Plant	3,752,350	3,993,650	3,720,651	272,999
Pupil Transportation	2,209,078	2,326,578	2,341,534	(14,956)
Central	399,791	399,840	334,630	65,210
Extracurricular Activities	495,284	519,884	508,374	11,510
Site Improvement	4,200	4,200	4,177	23
Total Disbursements	<u>36,493,194</u>	<u>37,537,522</u>	<u>36,442,172</u>	<u>1,095,350</u>
Excess of Receipts Over (Under) Disbursements	<u>418,541</u>	<u>(563,866)</u>	<u>635,936</u>	<u>1,199,802</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	3,000	3,000	4,095	1,095
Advances In	43,000	43,000	43,000	
Advances Out		(55,000)	(51,953)	3,047
Transfers In				
Transfers Out	(916,283)	(916,283)	(880,245)	36,038
Total Other Financing Sources (Uses)	<u>(870,283)</u>	<u>(925,283)</u>	<u>(885,103)</u>	<u>40,180</u>
Net Change in Fund Balance	(451,742)	(1,489,149)	(249,167)	1,239,982
Unencumbered Fund Balance Beginning of Year	2,577,925	2,577,925	2,577,925	
Prior Year Encumbrances Appropriated	<u>373,660</u>	<u>373,660</u>	<u>373,660</u>	
Fund Balance End of Year	<u><u>\$2,499,843</u></u>	<u><u>\$1,462,436</u></u>	<u><u>\$2,702,418</u></u>	<u><u>\$1,239,982</u></u>

See accompanying notes to the basic financial statements.

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$557,567</u>	<u>\$148,804</u>
Net Assets		
Held in Trust for Scholarships	<u>\$557,567</u>	
Held for Student Activities		<u>\$148,804</u>

See accompanying notes to the basic financial statements.

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

STATEMENT OF CASH BASIS CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust</u>
Additions	
Interest	\$22,837
Contributions	
Other	500
Total Additions	<u>23,337</u>
Deductions	
Scholarships	44,722
Instruction	16,669
Total Deductions	<u>61,391</u>
Change in Net Assets	(38,054)
Net Assets Beginning of Year	<u>595,621</u>
Net Assets End of Year	<u><u>\$557,567</u></u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

A. Reporting

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

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

The District is associated with five jointly governed organizations and one public entity risk pool. These organizations include the Southwestern Ohio Educational Purchasing Council, Miami Valley Special Education Regional Resource Center, Southwestern Ohio Instructional Technology Association, Greene County Career Center, Metropolitan Dayton Educational Cooperative Association, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 9 and 10 of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although Ohio Administrative Code Section 112-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in government-wide and fund financial statements verses budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

B. 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.

1. Government-Wide Financial Statement

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 and component unit. These statements do not include the financial activities of fiduciary funds.

The statement of net asset presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities and component unit. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

During the fiscal 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. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. 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 District divides its funds into two categories: governmental and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following are the District's major governmental funds:

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

Bond Service Fund – The bond service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Building Repair – The building repair fund is used to account for the receipts and expenditures related to special bond funds in the district.

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

2. Fiduciary Fund Types

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

D. Budgetary Process

1. Budget

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which indicates the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2005 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

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

4. Encumbrances

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

E. Cash and Investments

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

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

F. Unpaid Vacation and Sick Leave

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

G. Property, Plant and Equipment

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Long-Term Liabilities

Cash basis financial statements do not report liabilities and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

I. Net 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. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specific purposes.

J. Inter-fund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

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 inter-fund transfers. Inter-fund 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.

3. 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 able to withdraw on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

A. Deposits

At June 30, 2006, the carrying amount of the District's deposits was \$2,261,625 and the bank balance was \$3,389,868. Of the bank balance, \$301,466 was covered by federal depository insurance and \$3,088,402 was covered by collateral held by third party trustees pursuant to section 135.181 of the Ohio Revised Code, in collateral pools serving all public funds on deposit with specific depository.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

At June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Book Value</u>
Star Ohio		\$2,781,261	\$2,781,261
Treasury Note	1/31/2007	99,218	99,770
Treasury Note	2/28/2007	148,780	149,647
Treasury Note	3/31/2007	208,362	209,560
Treasury Note	8/31/2007	212,841	214,943
Federal Home Loan Bank	12/8/2006	545,358	548,075
Federal Home Loan Bank	8/15/2008	142,236	145,311
Federal Home Loan Bank	12/17/2009	991,560	1,000,980
		<u>\$5,129,616</u>	<u>\$5,149,547</u>

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District’s investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District’s policy does not further limit its investment choices. The following are the credit ratings for the District’s investments:

<u>Investment</u>	<u>Credit Rating</u>
Star Ohio	AAAm ¹
Treasury Notes	AAA
Federal Home Loan Bank	AAA

¹ Standards & Poor

4. PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed valued listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by the State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

4. PROPERTY TAX (Continued)

Tangible personal property tax revenue receiving during calendar year 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Greene, Clark, and Montgomery Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties 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.

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

	2006 First-Half Collections	
	Amount	Percent
Real Property		
Residential/Agricultural & Commercial/Industrial Public Utilities	\$572,292,480	91.26%
Tangible Personal Property	\$ 54,826,211	8.74%
Total Valuation	\$627,118,691	100.00%
Tax rate per \$1,000 of assessed valuation	\$47.85	

5. DEBT OBLIGATIONS

A. Debt Obligations

Debt obligations of the District at June 30, 2006, consisted of the following:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06
General Improvement Bonds				
Variable Interest Rate 4.4 – 6.4%	\$18,790,000	\$ 0	\$18,790,000	\$0
General Improvement Bonds Refunded				
Variable Interest Rate 4 – 5.25%		15,614,987		15,614,987
Energy Conservation Improvement Bonds				
Variable Interest Rate 3.5 - 4.6%	1,370,000		130,000	1,240,000
Energy Conservation Improvement Notes				
Interest Rate 5.28%	181,534	0	155,600	25,934
School Bus Acquisition Bond				
Variable Interest Rate 3.45 – 4.3%	450,000	0	105,000	345,000
Total Debt Obligations	\$20,791,534	\$15,614,987	\$19,180,600	\$17,225,921

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEBT OBLIGATIONS (Continued)

General improvement bonds issued August 1, 2000, with a variable interest rate of 4.4 – 6.40% to be paid from the debt service fund with the final maturity being during fiscal year 2027. In May 2006, these bonds were refunded and now have a variable interest rate of 4.0% to 5.25% with a final maturity date of 12/1/2026. A significant savings will be seen by the District with this refunded issue.

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

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

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

All debt issues will be retired from the Debt Service Fund.

B. Future Debt Requirements

The annual requirements to amortize all debt outstanding as of June 30, 2006 are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 672,967	\$ 494,220	\$ 1,167,187
2008	392,967	774,882	1,167,849
2009	395,000	758,948	1,153,948
2010	285,000	744,713	1,029,713
2011	295,000	732,450	1,027,450
2012-2016	3,014,987	4,883,761	7,898,748
2017-2021	4,740,000	2,577,125	7,317,125
2022-2026	6,035,000	1,284,000	7,319,000
2027	1,395,000	69,750	1,464,750
Total	<u>\$17,225,921</u>	<u>\$12,319,849</u>	<u>\$29,545,770</u>

6. PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.OHSERS.org under forms and publications.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

6. PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by SERS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. 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 annual covered salary was the portion used to fund pension obligations. The District's contributions to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$710,234, \$656,422, and \$769,254 respectively.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.STRSOH.org.

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10.0 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions to STRS for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,629,747, 2,553,230, and \$2,764,019 respectively. Contributions to the DC and Combined Plans for fiscal year 2006 were \$47,547 made by the District and \$75,476 made by the plan members.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

7. POST RETIREMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2006, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District the amount to fund health care benefits equaled \$187,839 during the 2006 fiscal year. As of June 30, 2005, eligible benefit recipients totaled 115,395.

For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000. The balance in the fund was \$3.3 billion at June 30, 2005.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who qualify.

At June 30, 2006, the 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 2005, the minimum pay has been established at \$35,800. For the District the amount to fund health care equaled \$245,326 during the 2006 fiscal year. The number of participants currently receiving health care benefits is 58,123. For the fiscal year ended June 30, 2005, net health care costs paid by SERS were \$178.2 million. At June 30, 2005 SERS had net assets available for payment of healthcare benefits of \$267.5 million.

8. RISK MANAGEMENT

A. Public Liability

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District carried property and general liability insurance and boiler and machinery insurance.

Professional liability is protected by the Indiana Insurance Company, with \$1,000,000 each occurrence, and \$2,000,000 in annual aggregate limit. An additional "umbrella" policy has \$4,000,000 per occurrence and \$4,000,000 aggregate limit.

The District contracted with Indiana Insurance Company for building and property insurance. Commercial property is insured at a limit of \$80,358,271 with a \$10,000 deductible on everything except computers, which have a \$1,000 deductible.

Automobile liability is also covered by Indiana Insurance Company for replacement cost with a \$250 comprehensive deductible, \$500 collision deductible, and combined single limit each accident of \$100,000.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

8. RISK MANAGEMENT (Continued)

B. Health Benefits

In an effort to curb health care spending on October 1, 2003 the district switched from being self insured to being fully insured with Anthem Blue Cross and Blue Shield. Prior to October 1, 2003 a Preferred Provider Organization (PPO) medical plan was established. This provided a network of physicians and hospitals through Flora Midwest. With this plan, the District and employees paid into the Employee Benefits Self-Insurance Internal Service Fund for family and individual coverage which was funded on a monthly basis. Also on October 1, 2003 the district switched dental coverage from self insured to fully insured through Anthem Blue Cross and Blue Shield. Prior to October 1, 2003 the district contracted with Bridgestone Americas Holding, Inc. to serve as the third party administrator for both health and dental coverage. As of June 30, 2006 all self insurance claims have been paid.

9. JOINTLY GOVERNED ORGANIZATIONS

A. Southwestern Ohio Educational Purchasing Council (SOEPC)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of nearly 100 Districts in 12 counties. The purpose of the council is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center, Suite 208, Vandalia, OH 45377.

B. Miami Valley Special Education Regional Resource Center

The Miami Valley Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 38 members made up of the 38 superintendents, 6 parent mentors, 12 special education directors, and one university. Some entities have more than one voting delegate. Financial information can be obtained from Sharon Kindrid, at the Montgomery County Educational Service Center, 200 S Keowee Street, Dayton, Ohio 45402.

C. Southwestern Ohio Instructional Technology Association (SOITA)

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

D. Greene County Career Center

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

E. Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public Districts within the boundaries of Montgomery, Miami and Darke Counties, and the Cities of Dayton, Troy, Fairborn, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts.

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

10. GROUP INSURANCE PURCHASING POOL

The District is a member of the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (SOEPC). The cooperative council contracts with Comp Management to provide an insurance purchasing pool for workers compensation. The District is penalty rated due to a large number of claims and therefore does not receive the low rate. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center, Suite 208, Vandalia, OH 45377.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

11. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbook and Instructional Material Reserve	Capital and Maintenance Reserve
Set-aside Cash Balance as of 6/30/2005	\$263,367	\$ 0
Additional Set-aside Required for 2005	247,557	0
Current Year Set-Aside Requirement	690,182	690,182
Qualifying Disbursements	(474,627)	(1,545,874)
Total	<u>\$726,479</u>	<u>(\$ 855,692)</u>
Set-aside Cash Balance carried forward to 2006	<u>\$478,922</u>	<u>\$ 0</u>
Unfunded Set-aside Requirement for 2006	<u>\$247,557</u>	<u>\$ 0</u>

The District has applied for a waiver with the State Superintendent for the additional set-aside requirement amounts.

12. CONTINGENCIES

A. Litigation

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

B. State School Funding Decision

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

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

13. FISCAL WATCH

The Ohio Department of Education performed a fiscal analysis of the District in November 2003, and placed the District in fiscal caution effective February 23, 2004. The Auditor of State placed the District in Fiscal Watch on May 25, 2004. The district submitted a financial recovery plan on December 30, 2004 which was approved by the Ohio Department of Education on January 26, 2005. The district is still in fiscal watch and is now projecting a deficit balance at the end of Fiscal Year 2008.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
Passed Through Ohio Department of Education Food Donation	N/A	10.550		\$120,284		\$120,284
Child Nutrition Cluster:						
School Breakfast Program	043968-05PU-2005	10.553	\$61,856		\$61,856	
	043968-05PU-2006		105,098		105,098	
Total School Breakfast Program			166,954		166,954	
National School Lunch Program	043968-LLP4-2005	10.555	169,152		169,152	
	043968-LLP4-2006		327,174		327,174	
	043968-VGS1-2005		4,611		4,611	
Total National School Lunch Program			500,937		500,937	
Summer Food Service Program for Children	043968-23PU-2005	10.559	2,542		2,542	
	043968-24PU-2005		267		267	
Total Summer Food Service Program for Children			2,809		2,809	
Total Child Nutrition Cluster			670,700		670,700	
Team Nutrition Grants	043968-TWNT-2004	10.574	980		980	
Total U.S. Department of Agriculture			671,680	120,284	671,680	120,284
U.S. Department of Education						
Passed Through Ohio Department of Education Title I Grants to Local Educational Agencies	043968-C1S1-2005	84.010	142,552		167,592	
	043968-C1S1-2006		740,384		729,686	
Total Title I Grants to Local Educational Agencies			882,936		897,278	
Special Education Cluster:						
Special Education Grants to States	043968-6BSF-2005	84.027	32,660		202,532	
	043968-6BSF-2006		1,013,050		1,025,412	
Total Special Education Grants to States			1,045,710		1,227,944	
Special Education Preschool Grants	043968-PGS1-2005	84.173	12,567		12,270	
	043968-PGS1-2006		37,815		36,701	
Total Special Education Preschool Grants			50,382		48,971	
Total Special Education Cluster			1,096,092		1,276,915	
Safe and Drug-Free Schools and Communities	043968-DRS1-2005	84.186	3,729		5,212	
	043968-DRS1-2006		26,892		25,189	
Total Safe and Drug-Free Schools and Communities			30,621		30,401	
State Grants for Innovative Programs	043968-C2S1-2005	84.298	688		955	
	043968-C2S1-2006		14,959		13,043	
Total State Grants for Innovative Programs			15,647		13,998	
Education Technology State Grants	043968-TJS1-2005	84.318	(2,511)		658	
	043968-TJS1-2006		20,016		18,877	
Total Education Technology State Grants			17,505		19,535	
Comprehensive School Reform Demonstration	043968-RFCC-2005	84.332	(1,124)		26,722	
	043968-RFCC-2006		100,000		99,982	
Total Comprehensive School Reform Demonstration			98,876		126,704	

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
English Language Acquisition Grants	043968-T3S1-2005	84.365	3,699		4,458	
Improving Teacher Quality State Grants	043968-TRS1-2005 043968-TRS1-2006 043968-TRSP-2005	84.367	68,589 262,265 3,000		61,752 251,503 624	
Total Improving Teacher Quality State Grants			<u>333,854</u>		<u>313,879</u>	
Hurricane Education Recovery	043968-HR01-2006	84.938	12,812		12,812	
Direct Program Impact Aid	N/A	84.041	734,681		734,681	
Fund for the Improvement of Education	N/A	84.215			26,061	
Total U.S. Department of Education			<u>3,226,723</u>		<u>3,456,722</u>	
U.S. Department of Defense						
Direct Program Impact Aid	N/A	12.XXX	146,498		146,498	
Total U.S. Department of Defense			<u>146,498</u>		<u>146,498</u>	
U.S. Department of Health and Human Services						
Passed Through Ohio Department of Mental Retardation and Developmental Disability Medical Assistance Program (Spent by Greene County Educational Service Center on behalf of Fairborn City Schools)	N/A	93.778	78,435		78,435	
Medical Assistance Program Total Medical Assistance Program	N/A	93.778	17,768 <u>96,203</u>		17,768 <u>96,203</u>	
Passed Through Ohio Department of Mental Retardation and Developmental Disability State Children's Insurance Program	N/A	93.767	3,353		3,353	
Total U.S. Department of Health and Human Services			<u>99,556</u>		<u>99,556</u>	
Total Federal Assistance			<u><u>\$4,144,457</u></u>	<u><u>\$120,284</u></u>	<u><u>\$4,374,456</u></u>	<u><u>\$120,284</u></u>

The accompanying notes are an integral part of this schedule.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – COMMODITIES

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

NOTE C- NUTRITION CLUSTER

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

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fairborn City School District (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 November 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 2, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's basic 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2006-001 and 2006-002. In a separate letter to the District's management dated November 2, 2006, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Fairborn City School District
Greene County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 2, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Fairborn City School District (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 apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 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 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated November 2, 2006.

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

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

Betty Montgomery
Auditor of State

November 2, 2006

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FINDINGS
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)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	- Special Education Cluster, CFDA #84.027, 84.173 - Title 1, CFDA #84.010 - Improving Teacher Quality State Grants, CFDA #84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2006-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

Officials Response:

The District realizes the importance of accrual accounting presentation, however, with the severe financial strain the District has faced in the last three years the decision was made to present financial statements on the OCBOA basis of accounting. The District has laid off over 100 people in the last three years and it was determined that the extra cost to prepare yearly GAAP financial statements was not a prudent expenditure at this time. The District is mandated by the State of Ohio to operate on a cash basis. Our day to day operations, monthly reporting and five year forecast are all required to be on the cash basis of accounting, therefore, there is significant additional cost to prepare GAAP financial statements.

FINDING NUMBER 2006-002

Ohio Rev. Code 3315.17 and Ohio Rev. Code 3315.18 requires every city, local, exempted village and joint vocational school district establish a textbook and instructional materials fund and a capital and maintenance reserve fund, respectively. The funds are to be accounted for in the district's general fund using any reasonable accounting method.

Fairborn City School District was required by the above mentioned Ohio Revised Code sections to set aside \$726,479 for textbooks and instructional materials for FY06. The District set aside \$478,922 for textbooks and instructional materials. We recommend the School District deposit the statutorily required amounts into the textbook and materials fund.

Officials Response:

We did not receive a response from Officials to the finding reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Finding for recovery against Randy Durrum, Network Administrator, in the amount of \$126.10.	Yes	
2005-002	Finding for recovery against Neyra Griffin, Food Service Helper, in the amount of \$194.22.	Yes	
2005-003	Finding for recovery against Carolina Welch, Food Service Helper, in the amount of \$184.28.	Yes	
2005-004	Finding for recovery against Betsy Snyder, Food Service Helper, in the amount of \$75.76.	Yes	
2005-005	ORC Section 117.38 – District did not prepare its annual financial report in accordance with GAAP	No	Not Corrected, reissued as finding 2006-001
2005-006	ORC Sections 3315.17 and 3315.18 – District did not deposit the statutorily required amounts into the textbook and materials fund and the capital and maintenance fund.	No	Not Corrected, reissued as finding 2006-002



Mary Taylor, CPA
Auditor of State

FAIRBORN CITY SCHOOL DISTRICT

GREENE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2007**