



Mary Taylor, CPA  
Auditor of State



**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairborn City School District, Greene County, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairborn City School District, Greene County, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20, during the year ended June 30, 2007, the District changed its accounting basis from modified cash to a basis in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008, 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 currently in fiscal watch with the Ohio Department of Education. These conditions, and management's plans to address these concerns, are described in Note 21.

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

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.

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

**Mary Taylor, CPA**  
Auditor of State

April 28, 2008

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

The management's discussion and analysis of Fairborn City School District's financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- The School District reduced the total liabilities by \$2.53 million from 2006.
- General revenues accounted for \$39.22 million in revenue or 87.70 percent of all revenues. Program specific revenues in charges for services and grants and contributions accounted for \$5.50 million or 12.30 percent of \$44.72 million in total revenues.
- At the end of the current fiscal year, cash and cash equivalents of \$4.78 million accounted for 23.61 percent of total assets, excluding capital assets.
- The School District had \$46.21 million in expenses relating to governmental activities; only \$5.50 million of these expenses were offset by program specific revenues. The School District had a negative change in net assets due to depreciation of \$1.62 million on the capital assets.
- Among major funds, the general fund had \$37.18 million in revenues and \$38.31 in expenditures. The debt service fund had a year end balance of \$0.93 million.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all the School District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 11-12 of this report.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

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

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

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

The School District maintains thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the general fund and debt service fund, which are considered major funds. Data from the other twenty-eight governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 13-15 of this report.

**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 in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 18 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 19 of this report.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**Government-Wide Financial Analysis**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets from 2006 to 2007.

<b>Table 1</b>			
<b>Net Assets</b>			
	<b>2006</b>	<b>2007</b>	<b>Change</b>
<b>Assets</b>			
Current and Other Assets	\$23,450,789	\$20,251,815	(\$3,198,974)
Capital Assets, net of Accumulated depreciation	18,460,819	17,635,633	(825,186)
<b>Total Assets</b>	<b>41,911,608</b>	<b>37,887,448</b>	<b>(4,024,160)</b>
<b>Liabilities</b>			
Long-term Liabilities	25,039,305	23,674,397	1,364,908
Other Liabilities	16,998,947	15,831,182	1,167,765
<b>Total Liabilities</b>	<b>42,038,252</b>	<b>39,505,579</b>	<b>2,532,673</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	(3,118,903)	(2,678,543)	440,360
Restricted	1,831,672	1,270,304	(561,368)
Unrestricted	1,160,587	(209,892)	(1,370,479)
<b>Total Net Assets</b>	<b>(\$ 126,644)</b>	<b>(\$ 1,618,131)</b>	<b>(\$1,491,487)</b>

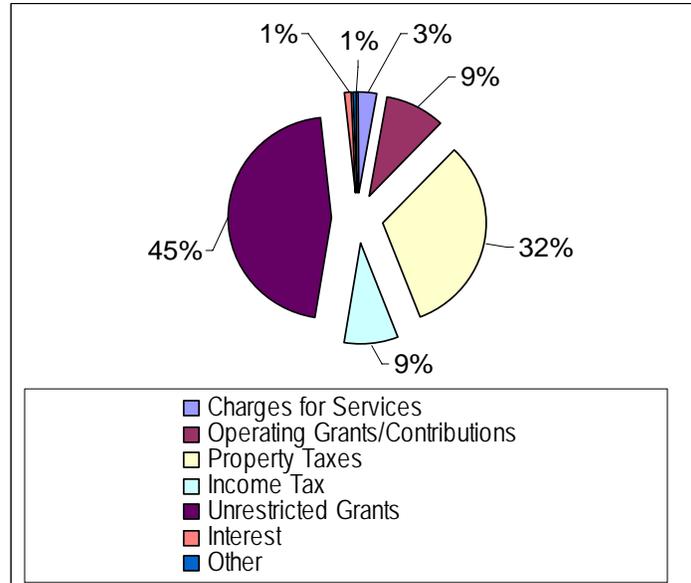
The decrease in capital assets is attributed to recognizing \$1.62 million in depreciation expense compared to very few additions during the current fiscal year. As you can see from the statement of net assets, the School District had a significant reduction in current and other assets (\$3.20 million), which resulted in the School District using over \$1.27 million of their cash balances to reduce the outstanding obligations of the School District. This reduction in the cash reserves also caused the School District's net assets to increase the deficit balance. As the debt obligations are reduced, the School District will see the net assets become positive.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

Graph 1 details out the School District's revenues by percentages, while Table 2 shows total revenues for fiscal year 2007.

**Graph 1  
Total Revenues**



**Table 2  
Total Revenues**

	<b>2007</b>
<b>Revenues:</b>	
<b>Program Revenues:</b>	
Charges for Services	\$ 1,389,676
Operating Grants/Contributions	4,108,137
<b>General Revenues:</b>	
Property and Other Taxes	14,201,085
Income Taxes	3,827,437
Grants and Contributions not restricted to specific programs	20,448,402
Unrestricted Investment Earnings	471,838
Miscellaneous	268,625
<b>Total Revenues</b>	<b>\$44,715,200</b>

For fiscal year 2007, the School District had \$9,405 in revenue per pupil ratio. This compares with the School District's \$9,735 expenditure per pupil. The School District received 47.49 percent of the Department of Education's cost to educate a child through the state funding formula. The local tax payer was responsible for contributing over 40 percent of the School District's total revenues for the fiscal year through property or income taxes.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

Table 3 shows total program expenses for fiscal year 2007.

**Table 3  
Total Program Expense**

	<u>2007</u>
<b>Program Expenses</b>	
<b>Instruction:</b>	
Regular	\$19,684,944
Special	5,434,523
Vocational	131
Other	2,848,141
<b>Support Services:</b>	
Pupils	2,430,921
Instructional Staff	2,117,220
Board of Education	100,010
Administration	2,842,651
Fiscal	809,520
Business	226,369
Operation and Maintenance of Plant	3,419,228
Pupil Transportation	2,456,688
Central	421,311
Operation on Non-Instructional Services	183,117
Food Service	1,403,278
Extracurricular Activities	853,214
Interest and Fiscal Charges	975,421
Total Expenses	<u>46,206,687</u>
Change in Net Assets	<u>(1,491,487)</u>
Ending Net Assets	<u><u>(\$1,618,131)</u></u>

**The Major Funds**

The School District's major funds start on page 13. These funds are accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the School District. The major funds account for 88.15% of the \$43.86 million in total revenue and 87.16% percent of the \$46.44 million in total expenditures. The general fund and debt service fund received a majority of their revenues from property taxes and intergovernmental revenues. Revenues were less than expenditures in both the general fund and debt service fund creating year end fund balances of (\$0.53) million and \$0.93 million, respectively.

The general fund recognized a (\$1.56 million) change in fund balance for the fiscal year as School District expended the majority of the monies on personnel costs related to salaries and benefits. The general fund spent 62.72 percent of those expenditures in instructional services for the benefits of the students.

The debt service fund accounted for a decrease of \$0.30 million in fund balance resulting in an ending fund balance of \$0.93 million. The School District received \$1.35 million in property taxes related to the bond levy during the year.

The School District's non-major funds consist of the grant funds and certain operational units, such as, food services, School District athletics or school supplies. For the non-major revenue, the grant monies make up almost 78 percent of the amount with 12 percent of the revenue derived from the lunchroom operations. Those non-major funds, as a group, saw a reduction in their fund balance by \$0.71 million.

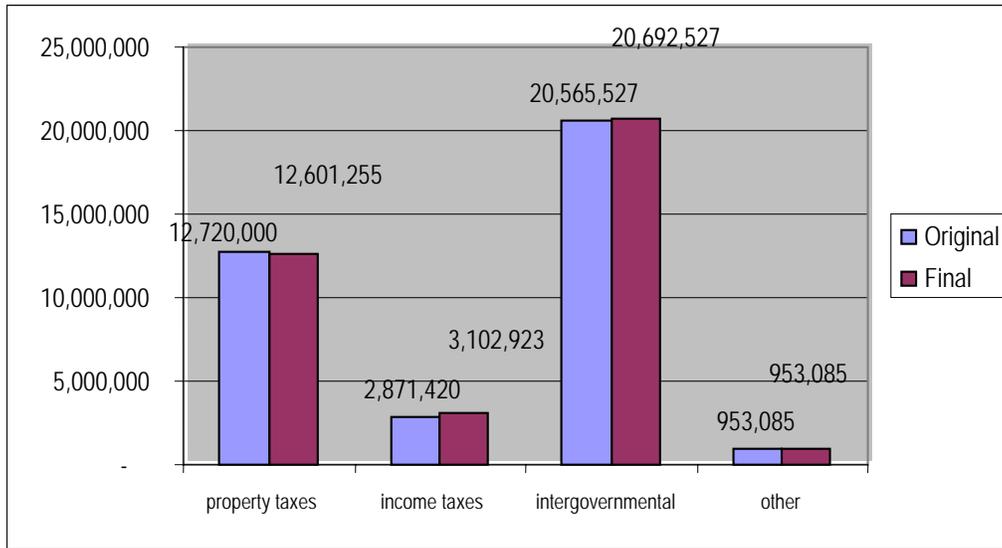
**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**General Fund Budgetary**

Graph 2 depicts the change from the original to the final general fund revenue budget for the fiscal year ended June 30, 2007.

**Graph 2  
Original Budget versus Final Budget for General Fund Revenues**



The School District had a total increase of 0.65 percent from original to final budgets for revenues as the School District worked throughout the year to maintain a strong fiscal management policy.

Table 4 examines the major changes from the original to the final general fund expenditures budget for the fiscal year ended June 30, 2007. The School District was very detailed in the original budget figures but saw the need to reduce the final budget based on controlling support service costs.

**Table 4  
Original to Final Budget for Expenditures**

	<b>Original</b>	<b>Final</b>	<b>Change</b>
Instruction	\$24,320,701	\$24,433,549	\$112,848
Support Services	15,204,862	14,484,501	(720,361)
Other	549,887	580,677	30,790

For comparison of actual amounts to final budgets, School District was able to project within \$0.13 million for revenues and \$0.23 million for expenditures. The slight difference in revenues can be attributed to the timing requirements in which the School District is required to complete the final budget documents. The largest variance in the expenditures resulted from the School District reducing final budgeted expenditures in the administration support service by eliminating all non-essential costs from the function.

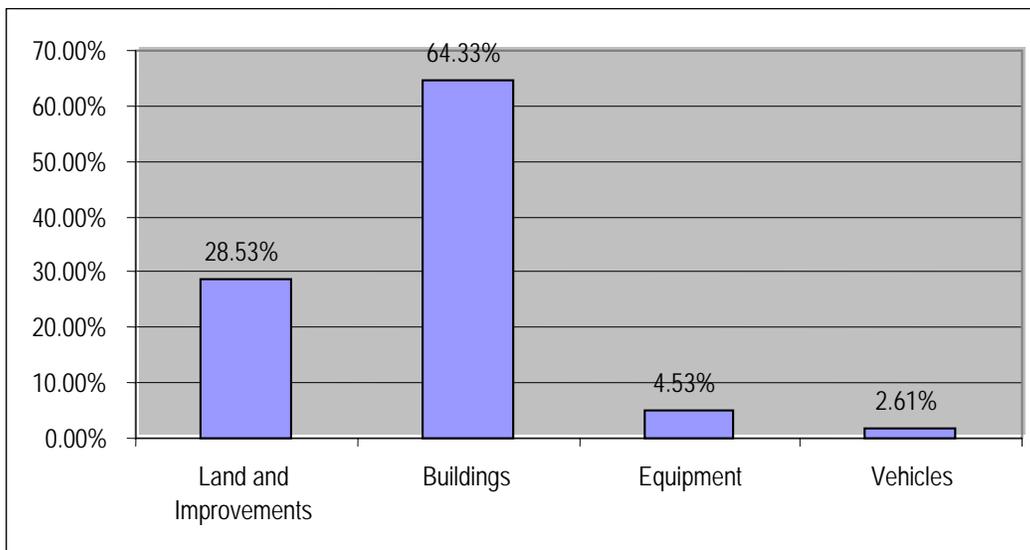
**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**Capital Assets**

At the end of the fiscal year, the School District had \$17.64 million invested in land, buildings and improvements, furniture and equipment, and vehicles less accumulated depreciation. The School District expended fewer dollars on other capital assets during the year except for some construction work on some of the buildings. For more information on the amounts that make up the School District's capital assets and related accumulated depreciation review Note 8 to the basic financial statements. Graph 3 shows the breakdown of the individual classes for net capital assets:

**Graph 3  
Percentage of Book Value Capital Assets by Class**



**Debt Administration**

The School District retired \$1.24 million of the general obligation bonds and energy conservation notes during the fiscal year. The School District retired \$0.03 million of capital lease obligations for copier and printer equipment during the year. The School District's overall legal debt margin was \$39,697,573.

For more information on the School District's long term debt obligations review Note 14 to the basic financial statements.

**Other items impacting the financial strength of the School District**

The School District is located along a stretch of Interstate 675 that is seeing expansion and development towards the southern end of the District. This development should continue to move north and increase property values in the District. Although the School District has seen the enrollment decline by 200 students from 2005 to 2007, the income tax revenue, in place since 1990, has increased over \$450,000.

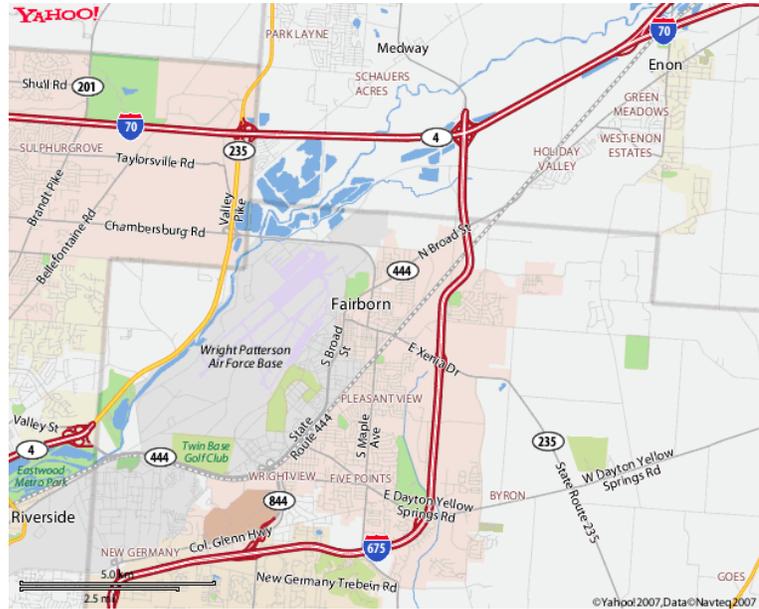
The School District saw a decrease in the net assets during the year with the depreciation of capital assets; however, with continued income tax revenue growth, the School District's financial condition has improved over the prior year and should continue to do so.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**Request for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, Fairborn City Schools, 306 E. Whittier Ave., Fairborn, Ohio 45324.



**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

	<b>Primary Government Governmental Activities</b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,781,022
<b>Receivables:</b>	
Property Taxes	12,781,929
Income Taxes	1,798,181
Payments in Lieu of Taxes	100,259
Accounts	10,580
Accrued Interest Receivable	20,273
Intergovernmental	476,176
Materials and Supplies Inventory	20,577
Prepaid Items	53,552
Issuance Costs	209,266
Nondepreciable Capital Assets	299,675
Depreciable Capital Assets	17,335,958
Total Assets	37,887,448
 <b>Liabilities</b>	
<b>Payables:</b>	
Accounts	245,372
Intergovernmental	1,238,007
Interest	73,935
Salaries and Employee Benefits	3,904,274
Unearned Revenue	10,369,594
<b>Non-current Liabilities:</b>	
Due within one year	1,344,083
Due in more than one year	22,330,314
Total Liabilities	39,505,579
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	(2,678,543)
<b>Restricted for:</b>	
Debt Service	926,812
Grants	207,152
Capital Improvements	136,340
Unrestricted	(209,892)
Total Net Assets	(\$1,618,131)

*See accompanying notes to the basic financial statements.*

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

Function/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$19,684,944	\$562,578	\$153,038	(\$18,969,328)
Special	5,434,523		1,572,407	(3,862,116)
Vocational	131			(131)
Other	2,848,141		302,093	(2,546,048)
<b>Support Services:</b>				
Pupils	2,430,921		27,646	(2,403,275)
Instructional Staff	2,117,220		959,042	(1,158,178)
Board of Education	100,010			(100,010)
Administration	2,842,651		66,271	(2,776,380)
Fiscal	809,520			(809,520)
Business	226,369			(226,369)
Operation and Maintenance of Plant	3,419,228			(3,419,228)
Pupil Transportation	2,456,688			(2,456,688)
Central	421,311		26,799	(394,512)
Operation of Non-Instructional Services	183,117		142,031	(41,086)
Food Service	1,403,278	647,058	840,214	83,994
Extracurricular Activities	853,214	180,040	18,596	(654,578)
Interest and Fiscal Charges	975,421			(975,421)
<b>Total Primary Government</b>	<b>\$46,206,687</b>	<b>\$1,389,676</b>	<b>\$4,108,137</b>	<b>(40,708,874)</b>
<b>General Revenues:</b>				
Property Taxes				14,201,085
Income taxes				3,827,437
Grants and Contributions not restricted to specific programs				20,448,402
Unrestricted investment earnings				471,838
Miscellaneous				268,625
<b>Total General Revenues</b>				<b>39,217,387</b>
Changes in Net Assets				(1,491,487)
Net Assets-Beginning (Restated)				(126,644)
Net Assets-Ending				<b>(\$1,618,131)</b>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,144,187	\$857,063	\$1,779,772	\$4,781,022
<b>Receivables:</b>				
Property and Other Taxes	11,422,112	1,359,817		12,781,929
Income Taxes	1,798,181			1,798,181
Payments in Lieu of Taxes	100,259			100,259
Accounts	5,911		4,669	10,580
Interfund	55,500			55,500
Accrued Interest	20,273			20,273
Intergovernmental	4,414		471,762	476,176
Prepaid Items	53,552			53,552
Materials and Supplies Inventory	9,317		11,260	20,577
<b>Total Assets</b>	<u>15,613,706</u>	<u>2,216,880</u>	<u>2,267,463</u>	<u>20,098,049</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
<b>Payables:</b>				
Accounts	\$153,982		\$91,390	\$245,372
Due to Local Governments	1,084,503		153,504	1,238,007
Salaries and Employee Benefits	3,584,704		319,570	3,904,274
Interfund			55,500	55,500
Matured Leave Payable	52,532			52,532
Deferred Revenue	11,270,280	1,290,068	48,464	12,608,812
<b>Total Liabilities</b>	<u>16,146,001</u>	<u>1,290,068</u>	<u>668,428</u>	<u>18,104,497</u>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Encumbrances	692,853		171,711	864,564
Inventory	9,317		11,260	20,577
Property Taxes	441,537	69,749		511,286
<b>Unreserved, reported in:</b>				
General	(1,676,002)			(1,676,002)
Debt Service		857,063		857,063
Special Revenue			1,084,900	1,084,900
Capital Projects			122,780	122,780
Permanent Fund			208,384	208,384
<b>Total Fund Balances</b>	<u>(532,295)</u>	<u>926,812</u>	<u>1,599,035</u>	<u>1,993,552</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$15,613,706</u>	<u>\$2,216,880</u>	<u>\$2,267,463</u>	<u>\$20,098,049</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007**

<b>Total Governmental Fund Balances</b>	\$1,993,552
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,635,633
Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	2,448,484
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(23,695,800)</u>
Net Assets of Governmental Activities	<u><u>(\$1,618,131)</u></u>

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Debt Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property Taxes	\$12,456,788	\$1,351,724		\$13,808,512
Income Taxes	3,465,180			3,465,180
Intergovernmental	20,317,729	130,673	\$4,050,912	24,499,314
Charges for Services	303		645,763	646,066
Tuition and Fees	351,292		138,191	489,483
Interest	381,099		90,739	471,838
Rent	3,893			3,893
Gifts and Donations	1,235		32,279	33,514
Extracurricular Activities	58,979		193,853	252,832
Miscellaneous	147,087		46,472	193,559
Total Revenues	<u>37,183,585</u>	<u>1,482,397</u>	<u>5,198,209</u>	<u>43,864,191</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	17,432,760		1,021,000	18,453,760
Special	4,008,581		1,370,643	5,379,224
Vocational	131			131
Other	2,590,210		258,845	2,849,055
<b>Support Services:</b>				
Pupils	2,344,975		54,956	2,399,931
Instructional Staff	1,304,018		859,803	2,163,821
Board of Education	100,010			100,010
Administration	2,630,742		108,640	2,739,382
Fiscal	784,869	23,453		808,322
Business	221,124			221,124
Operation and Maintenance of Plant	3,433,133		9,198	3,442,331
Pupil Transportation	2,499,241		195	2,499,436
Central	339,947		81,442	421,389
Operation of Non-Instructional Services			1,565,107	1,565,107
Extracurricular Activities	591,458		176,542	768,000
Capital Outlay			455,126	455,126
<b>Debt Service:</b>				
Principal Retirement	27,365	1,163,055		1,190,420
Interest and Fiscal Charges	5,922	973,387		979,309
Total Expenditures	<u>38,314,486</u>	<u>2,159,895</u>	<u>5,961,497</u>	<u>46,435,878</u>
Deficiency of Revenues				
Under Expenditures	(1,130,901)	(677,498)	(763,288)	(2,571,687)
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	3,450			3,450
Transfers - In	550,000	375,000	55,000	980,000
Transfers - Out	(980,000)			(980,000)
Total Other Financing Sources (Uses)	<u>(426,550)</u>	<u>375,000</u>	<u>55,000</u>	<u>3,450</u>
Net Change in Fund Balances	(1,557,451)	(302,498)	(708,288)	(2,568,237)
Fund Balances - beginning (restated)	1,022,334	1,229,310	2,307,917	4,559,561
Decrease in Inventory	2,822		(594)	2,228
Fund Balances - ending	<u>(\$532,295)</u>	<u>\$926,812</u>	<u>\$1,599,035</u>	<u>\$1,993,552</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<b>Net Change in Governmental Fund Balances</b>	(\$2,568,237)
<b>Amounts reported in governmental activities in the statement of activities are different because:</b>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(825,186)
Repayment of long-term obligations is reported as an expenditure in governmental funds, then the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount is:	1,265,546
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	778,111
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in governmental funds.	<u>(141,721)</u>
Change in net assets of governmental activities	<u><u>(\$1,491,487)</u></u>

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL -  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$12,720,000	\$12,601,255	\$12,760,072	\$158,817
Income Taxes	2,871,420	3,102,923	3,102,923	
Intergovernmental	20,565,527	20,692,527	20,673,918	(18,609)
Tuition and Fees	315,800	315,800	352,535	36,735
Interest	318,685	318,685	365,940	47,255
Rent	4,000	4,000	3,893	(107)
Extracurricular Activities	72,500	72,500	58,979	(13,521)
Charges for Services	500	500	303	(197)
Gifts and Donations	5,000	5,000	1,235	(3,765)
Miscellaneous	236,600	236,600	160,559	(76,041)
Total Revenues	<u>37,110,032</u>	<u>37,349,790</u>	<u>37,480,357</u>	<u>130,567</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	18,079,477	17,743,977	17,733,348	10,629
Special	3,985,990	4,094,969	4,066,309	28,660
Vocational	1,514	1,514	131	1,383
Other	2,253,720	2,593,089	2,582,952	10,137
<b>Support Services:</b>				
Pupils	2,405,477	2,379,978	2,374,443	5,535
Instructional Staff	1,238,889	1,288,116	1,281,158	6,958
Board of Education	66,694	129,694	95,305	34,389
Administration	2,919,050	2,830,765	2,775,963	54,802
Fiscal	808,743	819,233	794,562	24,671
Business	241,749	242,744	217,713	25,031
Operation and Maintenance of Plant	4,481,690	3,564,992	3,562,958	2,034
Pupil Transportation	2,578,923	2,836,511	2,822,143	14,368
Central	463,647	392,468	389,640	2,828
Extracurricular Activities	545,519	576,309	572,221	4,088
Capital Outlay	4,368	4,368		4,368
Total Expenditures	<u>40,075,450</u>	<u>39,498,727</u>	<u>39,268,846</u>	<u>229,881</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,965,418)	(2,148,937)	(1,788,489)	360,448
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	2,000	2,000	3,450	1,450
Refund of Prior Year Expenditures	50,000	67,125	67,125	
Advances In	52,000	52,000	51,953	(47)
Advances Out		(55,500)	(55,500)	
Transfers In	1,240,000	1,233,480	1,233,482	2
Transfers Out	(1,650,000)	(1,670,000)	(1,663,482)	6,518
Total Other Financing Sources (Uses)	<u>(306,000)</u>	<u>(370,895)</u>	<u>(362,972)</u>	<u>7,923</u>
Net Change in Fund Balance	<u>(3,271,418)</u>	<u>(2,519,832)</u>	<u>(2,151,461)</u>	<u>368,371</u>
Fund Balances at Beginning of Year	2,658,199	2,658,199	2,658,199	
Prior Year Encumbrances Appropriated	797,596	797,596	797,596	
Fund Balance at End of Year	<u>\$184,377</u>	<u>\$935,963</u>	<u>\$1,304,334</u>	<u>\$368,371</u>

See accompanying notes to the basic financial statements.

FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$141,719</u>
Total Assets	<u><u>141,719</u></u>
<b>Liabilities</b>	
Due to Students	<u>141,719</u>
Total Liabilities	<u><u>\$141,719</u></u>

*See accompanying notes to the basic financial statements.*

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Fairborn City School District (the "School District") has grown from a union of the Fairfield, 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 Fairfield 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 School 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 School 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 School 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 Entity**

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 School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District.

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

The School District 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 17 and 18 of the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District's accounting policies.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of inter-fund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The School District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**2. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, expenditures related to compensated absences and debt service are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the School District.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District employs the use of two categories of funds: governmental and fiduciary.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Funds**

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

The School District reports the following major governmental funds:

**General Fund** - The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Debt Service Fund** - The debt service fund accounts for the retirement of specific general governmental short and long term obligations. All revenues derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid in this fund.

Additionally, the School District reports the following fund type:

**2. Fiduciary Fund Types**

The fiduciary agency fund reporting focuses on net assets and changes in net assets. The School District maintains one fiduciary fund: Student Activities Agency. The Student Activities fund was established to account for revenues generated by student managed activities. The School District's agency fund is custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency fund, are legally required to be budgeted and appropriated. The legal level of budgetary control for the general fund is at the fund/function/object level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The legal level of budgetary control for all other funds is at the fund level. Likewise, any budgetary modifications at this level may only be made by resolution of the Board of Education.

**1. Tax Budget:**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Greene County Budget Commission for rate determination.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources:**

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School 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 School 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 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. Lapsing of Appropriations:**

The School 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.

**D. Cash and Cash Equivalents**

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

During fiscal year 2007, investments were limited to funds invested in federal mortgage backed agencies securities, United States treasury obligations, money market mutual funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Investment contracts and money market investments that have a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, during fiscal year 2007 amounted to \$381,099; \$103,622 was assigned from other funds. The lunchroom, special trust, district managed activities, auxiliary services (special revenue funds), building capital projects fund and permanent fund also received interest of \$35,326; \$1,244; \$4,792; \$5,138; \$20,977 and \$23,262 respectively.

**E. Inventory**

Inventories of governmental funds and governmental activities are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

**G. Capital Assets and Depreciation**

Capital assets, which include land, land improvements, building and improvements, furniture and equipment, and vehicles are reported on the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual amounts were not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The School District reviewed possible infrastructure assets (roads, bridges, culverts, etc.) which could be required to be capitalized. The School District has no infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the School District are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life:</u>
Land Improvements	15-20
Building and Improvements	20-40
Furniture and Equipment	5-15
Vehicles	8

**H. Interfund Assets/Liabilities**

Short-term interfund loans are classified as "inter-fund receivables" and "inter-fund payables." These amounts are eliminated on the statement of net assets within the consolidated columns.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after ten years of service or at age fifty-five or upon retirement from STRS or SERS.

Expenditures or liabilities related to compensated absences are reported in governmental funds only if they are due for payment as matured leave payable. The entire liability is reported on the government-wide statement of net assets.

**J. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported on the governmental fund financial statements when the liability is incurred. However, compensated absences and debt service expenditures are recorded as expenditures only when payment is due.

**K. Interfund Activity**

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

**L. Fund Balance Reserves and Designations**

The School District records reservations for those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Net Assets**

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are calculated, net of accumulated depreciation and reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**N. Deferred Revenues**

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenues. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**O. Exchange/Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6.)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**P. Estimates**

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

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. Reconciliation of government-wide and fund financial statements**

*Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:*

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$23,695,800) difference are as follows:

Capital Lease Payable	(\$56,671)
Long Term Debt Payable	(18,754,987)
General Obligation Bonds – Premium	(1,502,518)
Accrued Interest Payable	(73,935)
Compensated Absences	<u>(3,307,689)</u>
Net Adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i> ,	<u><u>(\$23,695,800)</u></u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$17,635,633 difference are as follows:

Capital Assets	\$44,011,934
Accumulated Depreciation	<u>(26,376,301)</u>
Net Adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$17,635,633</u></u>

*Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:*

An element of that reconciliation states that “Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in governmental funds.” The details of this (\$141,721) are as follows:

Change in Leave Balances	(\$145,609)
Net interest accrual on Long Term Debt	14,351
Net Change in Bonds Issuance Costs	<u>(10,463)</u>
Net Adjustment - current financial resources focus to reduce <i>fund balance - total governmental funds</i> to arrive at change in <i>net assets - governmental activities</i>	<u><u>(\$141,721)</u></u>

Another element of that reconciliation states that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this (\$825,186) are as follows:

Current capital additions	\$790,213
Depreciation Expense	<u>(1,615,399)</u>
Net Adjustment - capital assets to decrease <i>fund balance - total governmental funds</i> to arrive at change in <i>net assets - governmental activities</i>	<u><u>(\$825,186)</u></u>

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Another element of that reconciliation states that "Repayment of long-term obligations is reported as an expenditure in governmental funds, the repayment reduce the long-term liabilities in the statement of net assets." The details of this \$1,265,546 are as follows:

Principal reduction on capital lease	\$ 27,365
Principal reduction on debt	1,163,055
Net change on general obligation bond premium	<u>75,126</u>
Net Adjustment – long-term obligations to increase <i>fund balance – total governmental funds</i> to arrive at change in <i>net assets - governmental activities</i>	<u><u>\$1,265,546</u></u>

**3. ACCOUNTABILITY**

At June 30, 2007, the following funds had deficit fund balances:

<b>Fund</b>	<b>Amount</b>
General	\$532,295
Non-Major Governmental Funds	
Title VI-B Grant	22,069

The deficit in the grant program was created by expending the monies for the grant and having an outstanding receivable at year end. The School District provided advances from the general fund to cover the negative cash in these funds. The deficit in the General fund was created by application of generally accepted accounting principles. The School District is evaluating options to increase the General fund's ending balance.

**4. BUDGET TO GAAP RECONCILIATION**

**A. Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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(Continued)**

**4. BUDGET TO GAAP RECONCILIATION (Continued)**

The following table summarizes the adjustments necessary to reconcile the General Fund GAAP and budgetary basis statements.

<b>Deficiency of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</b>	
GAAP Basis	(\$1,557,451)
<b>Adjustments:</b>	
Revenue Accrual	363,897
Expenditure Accrual	(130,448)
Encumbrances	(823,912)
Advances	(3,547)
Budget Basis	<u>(\$2,151,461)</u>

**5. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits 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 accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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**5. DEPOSITS AND INVESTMENTS (Continued)**

3. Interim deposits in duly authorized depositories of the School District, provided those deposits are properly insured or collateralized as required by law;
4. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. 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; and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**A. Deposits**

At year end, the carrying amount of the School District's deposits was \$2,236,303 and the bank balance was \$2,473,984. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,273,984 was covered by pledged securities held by the institution in the School District's name.

**B. Investments**

The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The money market mutual funds are classified investments since they are not evidenced by securities that exist in physical or book entry form.

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**5. DEPOSITS AND INVESTMENTS (Continued)**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	
		<u>Less Than One Year</u>	<u>1-5 Years</u>
Federal Home Loan Bank Agencies	\$1,008,271		\$1,008,271
U.S. Treasury Notes	214,943	\$ 214,943	
STAR Ohio	1,463,224	1,463,224	
	<u>\$2,686,438</u>	<u>\$1,678,167</u>	<u>\$1,008,271</u>

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to decline in fair values by limiting the weighted average maturity of its investment portfolio.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The School District has investments in Star Ohio, U.S. Treasury Note, and Federal Home Loan Bank U.S. agency notes. Below are the credit ratings of the School District's investments:

<u>Security</u>	<u>Rating Agency</u>	
	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Star Ohio	Aaa	AAA
U.S. Treasury Note	Aaa	AAA
Federal Home Loan Bank Agencies	Aaa	AAA

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The School District's investment policy allows investments in Federal Agencies or Instrumentalities. Star Ohio comprised of 54% of the School District's investments, Treasury Direct Notes comprised 8% of the School District's investments, and Federal Home Loan Bank Notes comprised 38% of the School District's investments.

**Custodial Credit Risk** is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are secured.

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2007 for real and public utility property taxes represents collections of calendar 2006 taxes. Property tax payments received during calendar 2007 for tangible personal property (other than public utility property) is for calendar 2007 taxes.

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(Continued)**

**6. PROPERTY TAXES (Continued)**

2007 real property taxes are levied after April 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after April 1, 2007, and are collected in 2007 with real property taxes.

2007 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 2007 taxes were collected are:

	<u>2006 Second Half Collections</u>		<u>2007 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$572,292,480	91.26%	\$580,847,560	93.11%
Public Utility Personal	23,684,923	3.78	18,559,220	2.98
Tangible Personal Property	31,141,288	4.96	24,411,963	3.91
Total Assessed Value	<u>\$627,118,691</u>	<u>100.00%</u>	<u>\$623,818,743</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.85		\$47.65	

The School District receives property taxes from Greene, Montgomery, and Clark Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Fairborn City School District. The County Auditor periodically remits to the School District its portion of taxes. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2007, was \$441,537 in the general fund and \$69,749 in the debt service fund, respectively.

**FAIRBORN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**7. RECEIVABLES**

Receivables at June 30, 2007 consisted of property taxes, income taxes, payment in lieu of taxes, interfund, accrued interest, accounts (rent, tuition, and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<b>Fund Description</b>	<b>Amounts</b>
General Fund	\$ 4,414
 <b>Non-major Governmental Funds:</b>	
Food Service	101,194
Ohio Reads Grant	17,025
Miscellaneous State Grants	42,469
Title VI-B Grant	217,630
Title III Grant	1,487
Title I Grant	83,252
Preschool Grant	8,705
Total Non-major Governmental Funds	471,762
Total	\$476,176

**8. CAPITAL ASSETS**

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

	<b>Balance 07/01/06</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 6/30/07</b>
<b>Governmental Activities</b>				
Capital Assets, not being depreciated				
Land	\$299,675			\$ 299,675
*Capital Assets, being depreciated				
Land Improvements	7,490,760			7,490,760
Buildings and Improvements	27,360,476	\$562,103		27,922,579
Furniture and Equipment	4,369,718	32,114		4,401,832
Vehicles	3,701,092	195,996		3,897,088
Total at Historical Cost	43,221,721	790,213		44,011,934
<b>Accumulated Depreciation</b>				
Land Improvements	(2,414,884)	(344,190)		(2,759,074)
Buildings and Improvements	(15,819,988)	(758,344)		(16,578,332)
Furniture and Equipment	(3,230,778)	(372,093)		(3,602,871)
Vehicles	(3,295,252)	(140,772)		(3,436,024)
Total Accumulated Depreciation	(24,760,902)	(1,615,399)		(26,376,301)
Governmental Activities Capital Assets, Net	\$18,460,819	(\$825,186)	\$0	\$17,635,633

**FAIRBORN CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$1,228,518
Support Services:	
Instructional Staff	24,635
Administration	84,090
Business	3,528
Operation and Maintenance of Plant	7,514
Pupil Transportation	166,604
Central	933
Food Services	14,363
Extracurricular Activities	85,214
Total Depreciation Expense	<u><u>\$1,615,399</u></u>

**9. RISK MANAGEMENT**

The School 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 2007, the School 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 School District contracted with Indiana Insurance Company for building and property insurance. Commercial property is insured at a limit of \$93,461,380 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.

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

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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](http://www.ohsers.org) under forms and publications.

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**10. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the School 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 School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The School District's contributions to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$576,829, \$710,234, and \$656,422 respectively; 50 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

**B. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at [www.strsoh.org](http://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, 2007, plan members were required to contribute 10.0 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contributions to STRS for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,560,062, \$2,629,747 and \$2,553,230 respectively; 83 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

Contributions to the DC and Combined Plans for fiscal year 2007 were \$63,486 made by the School District and \$97,443 made by the plan members.

**11. POSTEMPLOYMENT BENEFITS**

The School 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, 2007, 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 School District the amount to fund health care benefits equaled \$196,928 during the 2007 fiscal year.

For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients. The balance in the fund was \$3.5 billion at June 30, 2006.

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, 2007, the employer contributions to fund health care benefits were 3.32 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 2007, the minimum pay has been established at \$35,800. For the School District, the amount to fund health care, including the surcharge, equaled \$260,725 during the 2007 fiscal year.

The number of participants currently receiving health care benefits is 59,492. For the fiscal year ended June 30, 2006, net health care costs paid by SERS were \$158.7 million. At June 30, 2006 SERS had net assets available for payment of healthcare benefits of \$295.6 million.

**FAIRBORN CITY SCHOOL DISTRICT  
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**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vested vacation and sick leave amounts are derived from negotiated agreements and State laws. Classified employees and Administrators earn ten to twenty days of vacation per year, depending upon length of service. Employees may accumulate and carry over up to two years vacation accumulation. At the time of separation, an employee is entitled to compensation at the current rate of pay for all unused vacation accrued for the immediately preceding two years in addition to the prorated portion of earned but unused vacation leave for the current year. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 252 days for teachers and administrators and 243 days for the classified staff. Upon retirement with a minimum of ten years of service with the School District or employees who attain age 55 or retire through STRS or SERS payment is made for thirty-three percent of the employee's accumulated sick leave up to a maximum of 84 days for teachers and administrators and 81 days for classified staff.

**B. Life Insurance**

The School District provides life insurance and accidental death insurance to most employees through Minnesota Life Insurance Company.

**C. Employee Medical/Dental Benefits**

The School District has elected to provide employee medical/surgical benefits through Anthem. The School District pays 90% of family or single plans with the exception of 9 month employees. For employees working less than 10 months the board pays 90% for a single plan and 50% of a family plan. The School District provides 100% of the cost dental insurance to employees.

**13. CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the School District entered into capitalized leases for copy machines. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general fund. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copiers have been capitalized on the statement of net assets for governmental activities in the amount of \$135,950. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments in fiscal year 2007 totaled \$27,365 in the governmental activities. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007:

<b>Fiscal Year Ending June 30,</b>	<b>Governmental</b>
2008	\$33,496
2009	27,835
Total	61,331
Less: Amount Representing Interest	(4,660)
Present Value of Net Minimum Lease Payments	\$56,671

**FAIRBORN CITY SCHOOL DISTRICT  
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**14. LONG TERM DEBT**

Debt obligations of the School District at June 30, 2007, consisted of the following:

	<b>Restated Principal Outstanding 6/30/06</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 6/30/07</b>	<b>Amount Due within One Year</b>
General Improvement Bonds 4.4 – 6.4%	\$2,705,000		\$490,000	\$2,215,000	\$515,000
General Improvement Bonds Refunded 4 – 5.25%	15,614,987		415,000	15,199,987	125,000
General Improvement Bond Premium	1,577,645		75,127	1,502,518	75,126
Energy Conservation Improvement Bonds 3.5-4.6%	1,240,000		135,000	1,105,000	140,000
Energy Conservation Improvement Notes 5.28%	13,055		13,055		
School Bus Acquisition Bond 3.45 – 4.3%	345,000		110,000	235,000	115,000
Compensated Absences	3,459,583	\$1,149,364	1,248,726	3,360,221	344,461
Capital Lease	84,036		27,365	56,671	29,496
<b>Total Long Term Obligations</b>	<b>\$25,039,306</b>	<b>\$1,149,364</b>	<b>\$2,514,273</b>	<b>\$23,674,397</b>	<b>\$1,344,083</b>

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 partially 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 School 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 were retired 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. The School District's overall legal debt margin was \$39,697,573, the energy conservation loan debt margin was \$4,509,369 with an unvoted debt margin of \$623,819 at June 30, 2007.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**14. LONG TERM DEBT (Continued)**

The annual requirements to amortize all debt outstanding as of June 30, 2007 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 895,000	\$ 869,831	\$ 1,764,831
2009	935,000	828,764	1,763,764
2010	850,000	787,866	1,637,866
2011	890,000	747,177	1,637,177
2012	935,000	719,650	1,654,650
2013-2017	2,949,987	4,763,825	7,713,812
2018-2022	4,960,000	2,348,913	7,308,913
2023-2027	6,340,000	982,250	7,322,250
Total	<u>\$18,754,987</u>	<u>\$12,048,276</u>	<u>\$30,803,263</u>

**15. INTERFUND BALANCE/TRANSFERS**

Interfund balances at June 30, 2007, consist of the following individual receivables and payables:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<b>Major Funds</b>				
General	\$550,000	\$980,000	\$55,500	
Debt Service	375,000			
<b>Non-Major Governmental</b>				
Special Revenue Funds	55,000			\$55,500
Total	<u>\$980,000</u>	<u>\$980,000</u>	<u>\$55,500</u>	<u>\$55,500</u>

The interfund activity from the general fund to the others funds were to cover timing differences in the various grants funds and balances in the debt service fund. The School District expects to receive the grant monies within one year and the transfers and advances will be repaid to the general fund.

**16. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2006	\$478,922	
Additional Set-aside Required for 2006	247,557	
Current Year Set-aside Requirement	683,482	\$683,482
Qualifying Disbursements	(935,689)	
Offsets		(683,482)
Total	<u>484,272</u>	<u>(683,482)</u>
Set-aside Cash Balance carried forward	<u>236,715</u>	
Unfunded Set-aside Requirement for 2007	<u>\$247,557</u>	<u>\$0</u>

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**17. 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 Joni Shoemaker, 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.

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.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**17. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**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 School 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.

**18. INSURANCE PURCHASING POOL**

The School 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. 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.

**19. CONTINGENCIES**

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

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

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

**20. CHANGE IN ACCOUNTING BASIS AND RESTATEMENT**

During the year ended June 30, 2007, the District changed its accounting basis from modified cash to a basis in conformity with accounting principles generally accepted in the United States of America.

The change in accounting basis had the following effects on net assets as of June 30, 2006.

	<b>Governmental Activities</b>
Net Assets, June 30, 2006, reported	\$6,704,801
Reclassification of Fund Type	557,567
Recognition of Capital Assets	18,460,819
Recognition of Other Assets	16,188,421
Recognition of Current Liabilities	(16,998,947)
Recognition of Long Term Obligations	(25,039,305)
Net Assets, June 30, 2006, restated	(\$ 126,644)

For fiscal year 2006, the School District reported the Fairborn Digital Academy Community School (the Academy) as a discretely presented component unit. After reviewing the agreement between the Academy and the School District it was determined that the School District is not financially accountable for the Academy. There is no impact of the School District's net assets or fund balance as the Academy was presented separately from the other funds for the School District.

**21. 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 but is projecting that the deficit balance will be eliminated at the end of fiscal year 2008.

**22. NONCOMPLIANCE**

The School District did not comply with the requirement regarding fund set-asides.

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**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE Passed Through Ohio Department of Education</b>						
Food Donation	N/A	10.550		\$149,089		\$149,089
Child Nutrition Cluster:						
School Breakfast Program	043968-05PU-2006	10.553	\$73,912		\$73,912	
	043968-05PU-2006		153,449		153,449	
Total School Breakfast Program			227,361		227,361	
National School Lunch Program	043968-LLP4-2006	10.555	213,694		213,694	
	043968-LLP4-2007		422,921		422,921	
			636,615		636,615	
Summer Food Service Program for Children	043968-24PU-2006	10.559	10,368		10,368	
Total Child Nutrition Cluster			874,344		874,344	
Total United States Department of Agriculture			874,344	149,089	874,344	149,089
<b>UNITED STATES DEPARTMENT OF EDUCATION Passed Through Ohio Department of Education</b>						
Title 1 Grants to Local Educational Agencies	043968-C1S12006	84.010	141,250		151,948	
	043968-C1S12007		741,913		613,451	
Total Title 1 Grants to Local Education Agencies			883,163		765,399	
Special Education Cluster:						
Special Education Grants to States	043968-6BSF-2006	84.027	213,635		201,273	
	043968-6BSF-2007		1,018,733		1,030,922	
Total Special Education Grants to States			1,232,368		1,232,195	
Special Education Preschool Grants	043968-PGS1-2006	84.173	9,577		10,691	
	043968-PGS1-2007		39,308		31,228	
Total Special Education Preschool Grants			48,885		41,919	
Total Special Education Cluster			1,281,253		1,274,114	
Safe and Drug-Free Schools and Communities	043968-DRS1-2006	84.186			2,063	
	043968-DRS1-2007		20,426		20,426	
Total Safe and Drug-Free Schools and Communities			20,426		22,489	
State Grants for Innovative Programs	043968-C2S1-2006	84.298	(1,917)			
	043968-C2S1-2006		9,137		9,096	
Total State Grants for Innovative Programs			7,220		9,096	
Education Technology State Grants	043968-TJS1-2006	84.318	(315)		825	
	043968-TJS1-2007		4,150		2,349	
Total Education Technology State Grants			3,835		3,174	
Comprehensive School Reform Demonstration	043968-RFCC-2006	84.332	(18)			
	043968-RFCC-2007		47,122		43,259	
Total Comprehensive School Reform Demonstration			47,104		43,259	
English Language Acquisition Grants	043968-T3S1-2007	84.365	10,345		9,143	
Improving Teacher Quality State Grants	04398-TRS1-2006	84.367	35,331		46,094	
	04398-TRS1-2007		334,372		248,254	
	04398-TRSP-2006		4,500			
Total Improving Teacher Quality State Grants			374,203		294,348	
Hurricane Education Recovery	04398-HR01-2006	84.938	11,312		11,312	
(Direct)						
Impact Aid	N/A	84.041	784,821		784,821	
Fund for the Improvement of Education	N/A	84.215			3,398	
Total United States Department of Education			3,423,682		3,220,553	
<b>U.S. Department of Defense</b>						
Impact Aid	N/A	12.XXX	356,373		356,373	
Total Federal Assistance			\$4,654,399	\$149,089	\$4,451,270	\$149,089

The accompanying notes are an integral part of this schedule.

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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 - CHILD 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.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairborn City School District County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 28, 2008, wherein we noted the District changed its accounting basis from modified cash to a basis in conformity with accounting principles generally accepted in the United States of America. The District is currently in fiscal watch with the Ohio Department of Education. These conditions, and management's plans to address these concerns, are described in Note 21. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings a significant deficiency in internal control over financial reporting noted as item 2007-002.

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### **Internal Control Over Financial Reporting (Continued)**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated April 28, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted a certain noncompliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 28, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

April 28, 2008



# Mary Taylor, CPA

## Auditor of State

### 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 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 its major federal programs for the year ended June 30, 2007. 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, Fairborn City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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**Internal Control Over Compliance  
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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.



**Mary Taylor, CPA**  
Auditor of State

April 28, 2008

**FAIRBORN CITY SCHOOL DISTRICT  
GREENE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster: #84.027 Special Education Grants to States, #84.173 Special Education Preschool Grants
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2007-001**

**Ohio Rev. Code 3315.17 and Ohio Rev. Code 3315.18** state, in part, that the board of education of each city, local, exempted village and joint vocational school district shall 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 \$484,272 for textbooks and instructional materials after qualifying disbursements for the year ended June 30, 2007. The District set aside \$236,715 for textbooks and instructional materials. We recommend the School District deposit the statutorily required amounts into the textbook and materials fund.

**District Response:**

We set aside the amount from FY2006, which is \$247,557, on September 14, 2007.

**FINDING NUMBER 2007-002**

**SIGNIFICANT DEFICIENCY**

**Insurance Premiums for Vehicles No Longer Owned by District**

The District has retained insurance coverage for its vehicles. The detailed listing of premiums for vehicles included several vehicles which were at one time, but no longer, owned by the District. In addition, one vehicle was listed twice. The District's capital asset listing contained these errors, which has resulted in adjustments to the financial statements. The District had not reviewed the premium listing to determine that only vehicles still owned by the District were covered. Additional premiums have been paid for vehicles up to possibly 8 years. An overage of \$11,671 was paid by the District since fiscal year 2004 in premiums for these errors. The District has contacted its insurance agent who has agreed to refund duplicate premiums.

Overpayment of premiums on vehicles no longer owned by the District could result in the issuance of a finding for recovery in subsequent audits.

To provide additional assurance that the capital asset list is correct and that premiums paid for coverage is correct, the District should routinely update its capital asset listing and then compare the detail listing of vehicles shown on its capital asset listing with its insurance coverage.

**District Response:**

We are working to resolve this situation and are currently in the process of comparing the insurance coverage with the vehicle titles and the inventory listing.

**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, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
Ohio Rev. Code Section 117.38 and Ohio Adm Code Section 117-2-03 (B)	The District did not prepare their financial statement in accordance with generally accepted accounting principles (GAAP).	Yes	N/A
Ohio Rev. Code Section 3315.17 and 3315.18	The District did not set aside the requirement amount of funds for their textbook and materials fund.	No	Not corrected. Reissued as finding 2007-001





**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  
MAY 27, 2008**