



**Auditor of State
Betty Montgomery**

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, 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, 2005, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Fairborn City School District, Greene County, as of June 30, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

May 8, 2006

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Fairborn City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for fiscal year 2005 are as follows:

In total, net assets increased by \$1,210,916 or 17.55%, a significant change from the prior fiscal year. The fund most affected by the increase in cash and cash equivalents was the General Fund. This was due to significant cost cutting in personnel and the reorganization of the district for school year 2004-05. The school districts general receipts, those being primarily property taxes, personal income taxes and unrestricted state entitlements were \$37,963,580 or 88.49% of the total cash received during the fiscal year. Dependence on these two revenue sources is significant.

Using this Annual Report

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

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

Reporting the School District's Most Significant Funds

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004:

Table 1 Net Assets

	Governmental Activities	
	2005	2004
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,112,422	\$6,901,506
Total Assets	\$8,112,422	\$6,901,506
 Net Assets		
Restricted for:		
Capital Projects	\$2,228,095	\$2,296,655
Debt Service	763,995	933,930
Scholarships:		
Expendable	23,395	26,095
Non-expendable	158,057	156,695
Set-aside	263,367	
Other Purposes	1,987,294	2,240,487
Unrestricted	2,688,219	1,247,644
Total Net Assets	\$8,112,422	\$6,901,506

As mentioned previously, total net assets increased \$1,210,916 or 17.55 percent. The primary reasons contributing to the increases in cash balances are as follows:

- The school district is extremely dependent on unrestricted state funding. In FY 2003 this state funding began to level off and then decrease. Before FY 2003 it was very common to receive anywhere from a 5 to 12 percent increase in state funding. Even though enrollment had been declining during the same time state funding had been increasing, staffing levels increased.
- The above mentioned point resulted in severe measures taken in July 2003 beginning with a reduction in force in order to get expenditures in line with revenue. The district also drastically reduced the purchasing of textbooks, computers and instructional supplies. In April and May of 2004 the district made another reduction in force of 102 positions which equates to \$4,700,103. The effect of these severe measures has resulted in the FY 2005 increase of net assets.

The District was placed in Fiscal Caution on February 23, 2004 and in Fiscal Watch on May 25, 2004 by the Ohio Department of Education and the Auditor of the State of Ohio. As of June 30, 2005, the District is still in Fiscal Watch.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2005. Since the School District did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets
Table 2
Change in Net Assets**

	2005
Receipts:	
Program Receipts	
Charges for Services and Sales	1,482,844
Operating Grants and Contributions	3,376,306
Capital Grants	76,758
	4,935,908
Total Program Receipts	
General Receipts	
Property Taxes Levied for General Purposes	14,869,210
Property Taxes Levied for Debt Service	1,365,639
Grants and Entitlements	21,249,464
Sale of Capital Assets	4,659
Interest	205,461
Miscellaneous	269,147
	37,963,580
Total General Receipts	
Total Receipts	42,899,488
Disbursements:	
Instruction:	
Regular	17,726,049
Special	5,151,637
Vocational	1,981
Other Instruction	1,614,466
Support Services:	
Pupils	2,422,573
Instructional Staff	1,597,624
Board Of Education	56,970
Business	144,395
Operation and Maintenance of Plant	3,252,844
Pupil Transportation	1,841,311
Central	405,353
Non-Instructional Services:	
Food Services	1,240,447
Community Services	101,479
Extracurricular Activities	566,576
Facilities Acquisition & Construction	77,916
Debt Service:	
Principal Retirement	830,600
Interest and Fiscal Charges	1,153,918
	41,688,572
Total Disbursements	
Increase in Net Assets	1,210,916

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Program receipts only represent 11.51 percent of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition and fees and extracurricular activities, and food service sales.

General receipts represent 88.49 percent of the district's total receipts and of this amount about 56 percent is the result of unrestricted grants and entitlements, which primarily represents state foundation resources. Property and personal income taxes also make up a large portion of the District's general receipts (43 percent). The remaining 1 percent consists of tuition, athletic participation fees, investment income, ROTC funding, Impact aid funding and various other one time refunds and reimbursements.

The major program disbursements for governmental activities are for instruction, which accounts for around 58 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for approximately 14 percent of governmental disbursements. Maintenance of the District's facilities also represents a significant expense, 8 percent. Therefore, 80 percent of the District's disbursements are related to the primary functions of providing facilities and delivering education.

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

**Table 3
Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:		
Regular	\$17,726,049	\$16,772,116
Special	5,151,637	3,684,987
Vocational	1,981	1,981
Other Instruction	1,614,466	1,459,066
Support Services:		
Pupil	2,422,573	2,256,239
Instructional Staff	1,597,624	1,184,390
Board of Education	56,970	56,970
Administration	2,770,127	2,744,604
Fiscal	732,306	732,306
Business	144,395	144,395
Operation and Maintenance of Plant	3,252,844	3,252,844
Pupil Transportation	1,841,311	1,744,090
Central	405,353	375,321
Food Services	1,240,447	50,734
Community Services	101,479	27,661
Extracurricular Activities	566,576	202,526
Facilities Acquisition & Construction	77,916	77,916
Debt Service		
Principal Retirement	830,600	830,600
Interest and Fiscal Charges	1,153,918	1,153,918
<i>Total Governmental Activities</i>	<u>\$41,688,572</u>	<u>\$36,752,664</u>

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The dependence upon tax receipts and unrestricted state entitlements is apparent as over 90 percent of instruction activities are supported through taxes and other general receipts. However, it should be noted that special instruction activities are largely provided for through program receipts by over 28 percent. This is the result of operating grants and contributions restricted for special instruction purposes.

Over 95 percent of food services were covered by program receipts for fiscal year 2005. This is due to cafeteria sales, but mostly to state and federal subsidies and donated commodities for food service. Almost 64 percent of extracurricular activities disbursements are covered by program receipts. This is the result of music and athletic fess, ticket sales and gate receipts.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. Total governmental funds had receipts of \$42,899,488 and disbursements \$41,688,572. The greatest change within governmental funds occurred within the General Fund as the result of the elimination of over 100 staff positions. The School District has two major funds, the General Fund and the Building Repair Fund.

General Fund Budgeting Highlights

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

During fiscal year 2005 the District amended its General Fund budget as needed. Final budgeted receipts, in the amount of \$36,804,392 were slightly above original budgeted receipts, in the amount of \$36,142,648 a change of less than 2 percent. The changes from final budgeted receipts to actual receipts received, \$37,858, was also not significant.

Final disbursements were budgeted at \$36,386,015 while actual disbursements were \$34,658,501. The District budgeted monies for supplies and materials that were not spent and also budgeted monies for salaries and benefits that were taken out of grants instead of the general fund.

Actual general fund receipts were more than disbursements by \$1,330,281. This is the result of the elimination of over 100 staff positions for the 2004-05 school year.

Debt

At June 30, 2005, the School District's outstanding debt included General Improvement Bonds, Energy Conservation Notes, and School Bus Acquisition Bond in the amount of \$20,791,534. For further information regarding the School District's debt, refer to Note 5 to the basic financial statements.

Current Issues

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Contacting the School District's Financial Management

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

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**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

	Primary Government	Component Unit
	Governmental Activities	Fairborn Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$8,112,422	\$223,777
Total Assets	8,112,422	223,777
Net Assets		
Restricted for:		
Capital Projects	2,228,095	
Debt Service	763,995	
Scholarships:		
Expendable	23,395	
Non-expendable	158,057	
Set Asides	263,367	
Other Purposes	1,987,294	13,861
Unrestricted	2,688,219	209,916
Total Net Assets	\$8,112,422	\$223,777

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Primary Government			
	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$17,726,049	\$285,876	\$668,057	
Special	5,151,637		1,466,650	
Vocational	1,981			
Other Instruction	1,614,466	155,400		
Support Services:				
Pupil	2,422,573		166,334	
Instructional Staff	1,597,624		413,234	
Board of Education	56,970			
Administration	2,770,127		25,523	
Fiscal	732,306			
Business	144,395			
Operation and Maintenance of Plant	3,252,844			
Pupil Transportation	1,841,311	20,463		\$76,758
Central	405,353		30,032	
Food Services	1,240,447	657,055	532,658	
Community Services	101,479		73,818	
Extracurricular Activities	566,576	364,050		
Facilities Acquisition & Construction	77,916			
Debt Service				
Principal Retirement	830,600			
Interest and Fiscal Charges	1,153,918			
Total Primary Government Activities	\$41,688,572	\$1,482,844	\$3,376,306	\$76,758
Component Unit:				
Fairborn Digital Academy	\$799,305		\$191,812	

General Receipts

Property & Income Taxes Levied for:

General Purposes

Debt Service

Grants and Entitlements not Restricted to Specific Programs

Sale of Capital Assets

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

<u>Primary Government</u> <u>Net (Disbursements) Receipt and Changes in Net Assets</u>	<u>Component Unit</u> <u>Fairborn Digital Academy</u>
<u>Governmental Activities</u>	
(\$16,772,116)	
(3,684,987)	
(1,981)	
(1,459,066)	
(2,256,239)	
(1,184,390)	
(56,970)	
(2,744,604)	
(732,306)	
(144,395)	
(3,252,844)	
(1,744,090)	
(375,321)	
(50,734)	
(27,661)	
(202,526)	
(77,916)	
(830,600)	
(1,153,918)	
<u>(\$36,752,664)</u>	
	(\$607,493)
\$14,869,210	
1,365,639	
21,249,464	611,436
4,659	
205,461	
269,147	2,295
<u>37,963,580</u>	<u>613,731</u>
1,210,916	6,238
6,901,506	217,539
<u>\$8,112,422</u>	<u>\$223,777</u>

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
JUNE 30, 2005**

	<u>General</u>	<u>Building Repairs</u>	<u>Other Governmental Activities</u>	<u>Total Governmental Activities</u>
Assets				
Equity in Pooled Cash and Investments	\$2,688,218	\$2,228,095	\$2,932,742	\$7,849,055
Restricted Cash and Cash Equivalents	263,367			263,367
Total Assets	<u>2,951,585</u>	<u>2,228,095</u>	<u>2,932,742</u>	<u>8,112,422</u>
Fund Balances				
Reserved for Encumbrances	373,660	162,491	351,570	887,721
Reserved for textbooks/instructional materials	263,367			263,367
Unreserved, Reported in:				
General Fund	2,314,558			2,314,558
Special Revenue Funds			1,635,725	1,635,725
Debt Service Fund			763,995	763,995
Capital Projects Funds		2,065,604		2,065,604
Scholarships:				
Expendable Trust Funds			23,395	23,395
Non-expendable Trust Funds			158,057	158,057
Total Net Assets	<u>\$2,951,585</u>	<u>\$2,228,095</u>	<u>\$2,932,742</u>	<u>\$8,112,422</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN CASH BASIS FUND BALANCES GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Building Repair</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Receipts:				
Property Taxes	\$12,217,636		\$1,365,639	\$13,583,275
Income Taxes	2,651,574			2,651,574
Intergovernmental	21,151,135		3,551,393	24,702,528
Interest	143,035	\$50,253	12,173	205,461
Tuition and Fees	307,813		153,926	461,739
Extracurricular Activities	184,849		179,201	364,050
Food Service - Charges for Services			657,055	657,055
Miscellaneous	186,208		82,939	269,147
Sale of Assets	4,659			4,659
Total Receipts	<u>36,846,909</u>	<u>50,253</u>	<u>6,002,326</u>	<u>42,899,488</u>
Disbursements:				
Instruction:				
Regular	16,422,527		1,303,522	17,726,049
Special	3,668,944		1,482,693	5,151,637
Vocational	1,981			1,981
Other	1,492,760		121,706	1,614,466
Support Services:				
Pupils	2,216,615		205,958	2,422,573
Instructional Staff	1,059,653		537,971	1,597,624
Board of Education	56,970			56,970
Administration	2,692,046		78,081	2,770,127
Fiscal	706,477		25,829	732,306
Operations and Maintenance of Plant	3,226,450	6,243	20,151	3,252,844
Support Services Business	144,358		37	144,395
Pupil Transportation	1,837,421		3,890	1,841,311
Central	276,992		128,361	405,353
Food Services			1,240,447	1,240,447
Community Services			101,479	101,479
Extracurricular Activities	481,647		84,929	566,576
Facilities Acquisition & Construction		77,916		77,916
Debt Service:				
Principal Retirement			830,600	830,600
Interest and Fiscal Charges			1,153,918	1,153,918
Total Disbursements	<u>34,284,841</u>	<u>84,159</u>	<u>7,319,572</u>	<u>41,688,572</u>
Receipts Over/(Under) Disbursements	2,562,068	(33,906)	(1,317,246)	1,210,916
Other Financing Sources (Uses):				
Advances In	1,691		43,000	44,691
Advances Out	(43,000)		(1,691)	(44,691)
Transfers In			822,204	822,204
Transfers Out	(816,818)		(5,386)	(822,204)
Total Other Financing Sources (Uses)	<u>(815,127)</u>		<u>858,127</u>	
Total Receipts & Other Sources Over Disbursements & Other Uses	1,703,941	(33,906)	(459,119)	1,210,916
Fund Balances at Beginning of Year	<u>1,247,644</u>	<u>2,262,001</u>	<u>3,391,861</u>	<u>6,901,506</u>
Fund Balances at End of Year	<u>\$2,951,585</u>	<u>\$2,228,095</u>	<u>\$2,932,742</u>	<u>\$8,112,422</u>
Reserved for Encumbrances	<u>\$373,660</u>	<u>\$162,491</u>	<u>\$351,570</u>	<u>\$887,721</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$11,900,560	\$12,225,107	\$12,217,636	(\$7,471)
Income Taxes	2,650,000	2,651,574	2,651,574	
Intergovernmental	20,949,588	21,123,794	21,151,135	27,341
Interest	100,000	134,012	143,035	9,023
Tuition and Fees	222,000	305,919	307,813	1,894
Extracurricular Activities	163,000	184,849	184,849	
Miscellaneous	152,500	130,151	136,834	6,683
Refund of Prior Year Expenditures	5,000	48,986	49,374	388
Total receipts	<u>36,142,648</u>	<u>36,804,392</u>	<u>36,842,250</u>	<u>37,858</u>
Disbursements				
Instruction:				
Regular	17,199,790	17,098,330	16,440,491	657,839
Special	4,295,468	3,950,293	3,711,557	238,736
Vocational	8,433	2,033	1,981	52
Other	770,020	1,495,020	1,492,760	2,260
Support Services:				
Pupil	2,111,923	2,296,673	2,250,336	46,337
Instructional Staff	1,294,963	1,294,963	1,113,006	181,957
Board of Education	84,225	69,575	58,990	10,585
Administration	2,806,282	2,847,752	2,732,721	115,031
Fiscal	810,341	775,341	708,843	66,498
Business	203,974	203,624	156,158	47,466
Operation and Maintenance of Plant	3,673,879	3,352,419	3,299,753	52,666
Pupil Transportation	1,999,555	2,028,355	1,896,447	131,908
Central	438,181	438,181	313,626	124,555
Extracurricular Activities	547,073	533,373	481,832	51,541
Food Service Operations	83	83		83
Total Disbursements	<u>36,244,190</u>	<u>36,386,015</u>	<u>34,658,501</u>	<u>1,727,514</u>
Excess of Receipts Over (Under) Disbursements	(101,542)	418,377	2,183,749	1,765,372
Other Financing Sources (Uses)				
Sale of Capital Assets	3,500	4,659	4,659	
Advances In		1,691	1,691	
Advances Out		(45,000)	(43,000)	2,000
Transfers In	745,000			
Transfers Out	(1,561,818)	(816,818)	(816,818)	
Total Other Financing Sources (Uses)	<u>(813,318)</u>	<u>(855,468)</u>	<u>(853,468)</u>	<u>2,000</u>
Net Change in Fund Balance	(914,860)	(437,091)	1,330,281	1,767,372
Unencumbered Fund Balance Beginning of Year	448,866	448,866	448,866	
Prior Year Encumbrances Appropriated	<u>798,779</u>	<u>798,779</u>	<u>798,779</u>	
Fund Balance End of Year	<u><u>\$332,785</u></u>	<u><u>\$810,554</u></u>	<u><u>\$2,577,926</u></u>	<u><u>\$1,767,372</u></u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$595,621</u>	<u>\$140,423</u>
 Net Assets		
Held in Trust for Scholarships	<u>\$595,621</u>	
Held for Student Activities		<u>\$140,423</u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**STATEMENT OF CASH BASIS CHANGES IN FIDUCIARY NET ASSETS -
MODIFIED CASH BASIS - PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Private Purpose Trust
Additions	
Interest	\$9,324
Contributions	2,550
Other	500
<i>Total Additions</i>	<u>12,374</u>
Deductions	
Scholarships	8,500
Instruction	1,850
Total Deductions	<u>10,350</u>
 Change in Net Assets	 2,024
 Net Assets Beginning of Year	 <u>593,597</u>
 Net Assets End of Year	 <u><u>\$595,621</u></u>

See accompanying notes to the basic financial statements.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Fairborn City School District (the "District") has grown from a union of the Fairborn, Osborn and Bath Township schools, which took place when the town of Osborn was moved. The earliest school records available are of Bath Township schools' purchase of land on September 1, 1856. The oldest historical record of the Osborn schools is a meeting of the Board of Education of July 27, 1906. The early history of the 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 District operates under the current standards prescribed by the Ohio Department of Education as provided in division (D) of sections 3301.07 and 119.01 of the Ohio Revised Code. The District is established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charge and further mandated by state and/or federal agencies.

A. Reporting

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

B. Basis of Presentation

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

1. Government-Wide Financial Statement

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government and component unit. These statements do not include the financial activities of fiduciary funds.

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

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

1. Governmental Fund Types

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

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

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

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

2. Fiduciary Fund Types

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

D. Budgetary Process

1. Budget

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2004 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

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

4. Encumbrances

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

E. Cash and Investments

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

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

F. Unpaid Vacation and Sick Leave

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

G. Property, Plant and Equipment

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Long-Term Liabilities

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

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specific purposes.

J. Inter-fund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

As of June 30, 2005, the District had \$5,000 in un-deposited cash on hand which is included in the fund balance.

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At June 30, 2005, the carrying amount of the District's deposits was \$809,749 and the bank balance was \$1,288,712. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,188,712 was covered by collateral held by third party trustees pursuant to section 135.181 of the Ohio Revised Code, in collateral pools serving all public funds on deposit with specific depository.

Investments: At June 30, 2005, the School District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Book Value</u>
Star Ohio		\$2,591,232	\$2,591,232
Fifth Third MaxSaver		2,264,303	2,264,303
Treasury Bill	7/28/2005	399,008	397,088
Treasury Bill	7/28/2005	199,564	197,361
Treasury Bill	8/11/2005	298,968	295,890
Treasury Bill	8/18/2005	448,181	443,721
Treasury Bill	8/25/2005	348,339	344,957
Treasury Bill	11/10/2005	494,144	492,113
Treasury Note	1/31/2007	99,125	99,770
Treasury Note	2/28/2007	149,297	149,647
Treasury Note	3/31/2007	210,361	209,560
Federal Home Loan Bank	12/8/2006	547,421	548,075
		<u>\$8,049,943</u>	<u>\$8,033,717</u>

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

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

<u>Investment</u>	<u>Credit Rating</u>
Star Ohio	AAAm
Fifth Third MaxSaver	AAAm
Treasury Bills	AAA
Treasury Notes	AAA
Federal Home Loan Bank	AAA

4. PROPERTY TAX

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. PROPERTY TAX (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed valued listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by the State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue receiving during calendar year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Greene, Clark, and Montgomery Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed valued upon which fiscal year 2005 taxes were collected are:

	2005 First-Half Collections	
	Amount	Percent
Real Property Residential/Agricultural & Commercial/Industrial Public Utilities	\$528,797,690	89.99%
Tangible Personal Property	<u>\$ 58,848,572</u>	<u>10.01</u>
Total Valuation	\$587,646,262	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.85	

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEBT OBLIGATIONS

A. Debt Obligations

Debt obligations of the District at June 30, 2005, consisted of the following:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05
General Improvement Bonds Variable Interest Rate 4.4 – 6.4%	\$19,240,000	\$ 0	\$450,000	18,790,000
Energy Conservation Improvement Bonds Variable Interest Rate 3.5 – 4.6%	1,495,000	0	125,000	1,370,000
Energy Conservation Notes Interest Rate 5.28%	337,134	0	155,600	181,534
School Bus Acquisition Bond Variable Interest Rate 3.45 – 4.3%	550,000	0	100,000	450,000
Total Debt Obligations	<u>\$21,622,134</u>	<u>\$ 0</u>	<u>\$ 830,600</u>	<u>20,791,534</u>

General improvement bonds issued August 1, 2000, with a variable interest rate of 4.4 – 6.40% will be paid from the debt service fund with the final maturity being during fiscal year 2027.

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

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

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEBT OBLIGATIONS (Continued)

B. Future Debt Requirements

The annual requirements to amortize all debt outstanding as of June 30, 2005 are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	873,567	1,115,808	1,989,375
2007	747,967	1,079,046	1,827,013
2008	770,000	1,045,214	1,815,214
2009	805,000	1,009,146	1,814,146
2010	715,000	973,449	1,688,449
2011-2015	3,965,000	4,279,276	8,244,276
2016-2020	4,405,000	3,082,791	7,487,791
2021-2025	5,720,000	1,658,944	7,378,944
2026-2027	2,790,000	162,725	2,952,725
Total	<u>\$20,791,534</u>	<u>\$14,406,399</u>	<u>\$35,197,933</u>

6. PENSION PLANS

A. School Employees Retirement System

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

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 District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The District's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$656,422, \$769,254, and \$844,637 respectively.

B. State Teachers Retirement System

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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, 2005, plan members were required to contribute 10.0 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions to STRS for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,553,230, \$2,764,019 and \$2,547,352 respectively. Contributions to the DC and Combined Plans for fiscal year 2005 were \$38,840 made by the School District and \$54,359 made by the plan members.

7. POST RETIREMENT BENEFITS

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. POST RETIREMENT BENEFITS (Continued)

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, 2005, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District the amount to fund health care benefits equaled \$189,189 during the 2005 fiscal year. As of June 30, 2005, eligible benefit recipients totaled 115,395.

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

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

At June 30, 2005, the employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the District the amount to fund health care equaled \$232,142 during the 2005 fiscal year. The number of participants currently receiving health care benefits is approximately 60,000. For the fiscal year ended June 30, 2005, net health care costs paid by SERS were \$178.2 million. At June 30, 2005 SERS had net assets available for payment of healthcare benefits of \$267.5 million.

8. RISK MANAGEMENT

A. Public Liability

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets, error and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District carried property and general liability insurance and boiler and machinery insurance.

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

The District contracted with Indiana Insurance Company for building and property insurance. Commercial property is insured at a limit of \$80,358,271 with a \$10,000 deductible on everything except computers, which have a \$100 deductible.

Automobile liability is also covered by Indiana Insurance Company for replacement cost with a \$250 deductible and combined single limit each accident of \$1,000,000.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RISK MANAGEMENT (Continued)

B. Health Benefits

In an effort to curb health care spending on October 1, 2003 the district switched from being self insured to being fully insured with Anthem Blue Cross and Blue Shield. Prior to October 1, 2003 a Preferred Provider Organization (PPO) medical plan was established. This provided a network of physicians and hospitals through Flora Midwest. With this plan, the District and employees paid into the Employee Benefits Self-Insurance Internal Service Fund for family and individual coverage which was funded on a monthly basis. Also on October 1, 2003 the district switched dental coverage from self insured to fully insured through Anthem Blue Cross and Blue Shield. Prior to October 1, 2003 the district contracted with Bridgestone Americas Holding, Inc. to serve as the third party administrator for both health and dental coverage. As of June 30, 2005 all self insurance claims have been paid.

9. JOINTLY GOVERNED ORGANIZATIONS

A. Southwestern Ohio Educational Purchasing Council (SOEPC)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of nearly 100 school 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, Ohio 45377.

B. Miami Valley Special Education Regional Resource Center

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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.

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 school 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, Ohio 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 school 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 school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school 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.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. GROUP INSURANCE PURCHASING POOL

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

11. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbook and Instructional Material Reserve	Capital and Maintenance Reserve
Set-aside Reserve Balance as of 6/30/2004		
Carryover Balance	(\$41,382)	0
Current Year Set-Aside Requirement	749,832	\$749,832
Qualifying Disbursements	<u>(\$197,526)</u>	<u>(\$84,159)</u>
Amount Required to be set aside as of 6/30/2005	\$510,924	\$665,673
Set-aside Reserve Balance as of 6/30/2005	<u>263,367</u>	<u>0</u>
Additional Set-aside Requirement	<u>\$247,557</u>	<u>\$665,673</u>

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

12. CONTINGENCIES

A. Litigation

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

B. State School Funding Decision

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

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. FISCAL WATCH

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

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation	10.550	N/A		\$99,256		\$99,256
School Breakfast Program	10.553	05-PU	\$122,155		\$122,155	
National School Lunch Program	10.555	LL-P4	379,143		379,143	
Summer Food Service Program for Children	10.559	04-PU	3,006		3,006	
Total U.S. Department of Agriculture - Child Nutrition Cluster			504,304	99,256	504,304	99,256
U.S. Department of Education						
<i>Passed through Ohio Department of Education</i>						
Grants to Local Educational Agencies	84.010	C1-S1-04 C1-S1-05	(48,636) 822,252		21,058 944,455	
Total Grants to Local Educational Agencies			773,616		965,513	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-04 6B-SF-05	110,880 981,974		184,046 812,102	
Total Special Education \Grants to States			1,092,854		996,148	
Special Education Preschool Grant	84.173	PG-S1-04 PG-S1-05	769 36,417		3,637 36,715	
Total Special Education Preschool Grant			37,186		40,352	
Total Special Education Cluster			1,130,040		1,036,500	
Safe and Drug-Free Schools and Communities State Grants	84.186	DR-S1-04 DR-S1-05	571 26,227		4,562 24,744	
<i>(Spent by Greene County Educational Service Center on Behalf of Fairborn)</i>						
Safe and Drug-Free Schools and Communities State Grants	84.186	N/A	1,084		1,084	
Total Safe and Drug-Free Schools and Communities State Grants			27,882		30,390	
<i>Passed through Ohio Department of Education</i>						
Title V - State Grants for Innovative Program	84.298	C2-S1-05	34,949		34,709	
Education Technology State Grants	84.318	TJ-S1-04 TJ-S1-05	(408) 20,136		4,288 16,966	
Total Education Technology State Grants			19,728		21,254	
Comprehensive School Reform Demonstration	84.332	RF-CC-05	50,000		22,153	
English Language Acquisition Grants	84.365	T3-S1-04 T3-S1-05 T3-S2-04 T3-S2-05	404 18,013 1,500 728		1,768 17,254 1,784 728	
Total English Language Acquisition Grants			20,645		21,534	
Improving Teacher Quality State Grant	84.367	TR-S1-04 TR-S1-05	(32,137) 216,068		43,756 222,905	
Total Improving Teacher Quality State Grant			183,931		266,661	

FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Education						
<i>(Direct Program)</i>						
Impact Aid	84.041	N/A	1,425,833		1,425,833	
Fund for the Improvement of Education	84.215	N/A	73,699		140,394	
Total U. S. Department of Education			<u>3,740,323</u>		<u>3,964,941</u>	
U. S. Department of Health and Human Services						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disability</i>						
Medical Assistance Program	93.778	N/A	112,660		112,660	
<i>(Spent by Greene County Educational Service Center on Behalf of Fairborn)</i>						
Medical Assistance Program	93.778	N/A	19,887		19,887	
Total Medical Assistance Program			132,547		132,547	
State Children's Insurance Program	93.767	N/A	4,932		4,932	
Total U.S. Dept. of Health and Human Services			<u>137,479</u>		<u>137,479</u>	
Total Federal Financial Assistance			<u>\$4,382,106</u>	<u>\$99,256</u>	<u>\$4,606,724</u>	<u>\$99,256</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

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 - CHILD NUTRITION CLUSTER

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.

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

NOTE C - MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Fairborn City School District, Greene County, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2006, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles and the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34. We also noted the District is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 8, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-006. In a separate letter to the District's management dated May 8, 2006, we reported other matters related to noncompliance we deemed immaterial.

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.



Betty Montgomery
Auditor of State

May 8, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fairborn City School District, Greene County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. 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 its major federal programs. 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 each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 8, 2006.

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



Betty Montgomery
Auditor of State

May 8, 2006

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	-Impact Aid, CFDA #84.041; -Nutrition Cluster, CFDA #10.550, 10.553, 10.555, 10.559 -Special Education Cluster, CFDA #84.027, 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Finding for Recovery – Network Administrator (Finding Repaid Under Audit.)

The Fairborn City School District Education Technology Department's petty cash account, in the amount of \$200, was closed on June 30, 2005. Receipts totaling \$23.21 and cash of \$50.69 were submitted to and accepted by the District Treasurer, Tammy Emrick. A total of \$126.10 was missing from the account. Randy Durrum, as network administrator of the Education Technology Department, was responsible for the petty cash account.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies not accounted for is issued against Randy Durrum, in the amount of \$126.10, in favor of Fairborn City School District's General Fund. This money was repaid on 4/7/06, as evidenced by check #00143757. We did not receive a response from officials to this finding.

FINDING NUMBER 2005-002

Finding for Recovery – Food Service Helper (Finding Being Repaid Under Audit)

Neyra Griffin received a pay notice, effective July 1, 2004, establishing her pay rate at \$10.15 per hour as a Food Service General Helper I. For the period of September 1, 2004 through June 30, 2005, Ms. Griffin was compensated for 1,142.5 hours at \$10.32 per hour, amounting to \$.17 per hour over her approved pay rate. This resulted in Ms. Griffin being overpaid in the amount of One Hundred Ninety-Four Dollars and twenty-two cents (\$194.22).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Neyra Griffin and in favor of Fairborn City School District's Food Service Fund for the amount of One Hundred Ninety-Four Dollars and twenty-two cents (\$194.22). The Finding is being repaid by payroll deduction. The amount of \$97.11 is being withheld for payroll periods ending May 26, 2006 and June 9, 2006. See officials response after finding 2005-004.

FINDING NUMBER 2005-003

Finding for Recovery – Food Service Helper (Finding Repaid Under Audit)

Carolina Welch received a pay notice, effective July 1, 2004, establishing her pay rate at \$10.15 per hour as a Food Service General Helper I. For the period of September 1, 2004 through June 30, 2005, Ms. Welch was compensated for 1,084 hours at \$10.32 per hour amounting to \$.17 per hour over the approved rate. This resulted in Ms. Welch being overpaid in the amount of One Hundred, Eighty-Four Dollars and twenty-eight cents (\$184.28).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Carolina Welch, and in favor of Fairborn City School District's Food Service Fund for the amount of One Hundred, Eighty-Four Dollars and twenty-eight cents (\$184.28). The Finding was repaid by payroll deduction for payroll period ending May 26, 2006. See officials response after finding 2005-004.

FINDING NUMBER 2005-004

Finding for Recovery – Food Service Helper (Finding Being Repaid Under Audit)

Betsy Snyder received a pay notice, effective July 1, 2004, establishing her pay rate at \$8.87 per hour. As a Food Service General Helper I for the period of September 1, 2004 through June 30, 2005 Ms. Snyder was compensated for 473.5 hours at \$9.03 per hour. Ms. Snyder was overpaid \$.16 per hour during 2005 school year. This resulted in Ms. Griffin being overpaid in the amount of Seventy-Five Dollars and seventy-six cents (\$75.76).

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Betsy Snyder and in favor of Fairborn City School District's Food Service Fund for the amount of Seventy-Five Dollars and seventy-six cents (\$75.76). The Finding is being repaid by payroll deduction. The amount of \$25.25 is being withheld from payroll periods ending May 26, 2006, June 9, 2006, and June 23, 2006.

Officials Response: In August 2004 through October 2004, the Treasurer's office was short staffed. The employees did bring the overpayment to the attention of the Treasurer's office, however, at that point in time the spreadsheet which was being used incorrect, therefore, no adjustment was made. Currently the personnel secretary prepares a spreadsheet from the salary notices and gives that to the payroll department for input. The payroll department then double checks the spreadsheet in order to ensure accuracy.

FINDING NUMBER 2005-005

Noncompliance Citation

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

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

We recommend the School District prepare its annual financial report in accordance with generally accepted accounting principles. We received no response from officials to this finding.

FINDING NUMBER 2005-006

Noncompliance Citation

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

FINDING NUMBER 2005-006
(continued)

Fairborn City School District was required by the above mentioned Ohio Revised Code sections to set aside \$510,924 for textbooks and instructional materials and \$665,673 for capital improvement and maintenance for FY05. The District set aside \$263,367 for textbooks and instructional materials and \$0 for capital improvement and maintenance.

We recommend the School District deposit the statutorily required amounts into the textbook and materials fund and the capital and maintenance fund. We received no response from officials to this finding.

**FAIRBORN CITY SCHOOL DISTRICT
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC Section 117.38 – District did not prepare its annual financial report in accordance with GAAP	No	Not Corrected, reissued as finding 2005-005
2004-002	ORC Section 9.38 – money not being posted within 24 hours	No	Partially corrected; reported in a separate letter to management of the District
2004-003	ORC Section 149.351 – destruction of records	No	Partially corrected; reported in a separate letter to management of the District
2004-004	Failure to maintain accountability over ticket sales and ticket sale reports	No	Partially corrected; reported in a separate letter to management of the District
2004-005	Student Activity advisors were not writing receipts; fundraising money was used to purchase other merchandise; order forms were not completed.	No	Partially corrected; reported in a separate letter to management of the District



**Auditor of State
Betty Montgomery**

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800-282-0370

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**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
JULY 18, 2006**