

**Fairfield Union  
Local School District**

Fairfield County, Ohio

Single Audit

June 30, 2007







Mary Taylor, CPA  
Auditor of State

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

We have reviewed the *Independent Auditor's Report* of the Fairfield Union Local School District, Fairfield County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fairfield Union Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 28, 2008

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, 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 management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Kennedy Cottrell Richards  
December 28, 2007

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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The discussion and analysis of the Fairfield Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- ▶ The assets of Fairfield Union Local School District exceeded its liabilities at June 30, 2007 by \$10,740,708. Of this amount, \$10,079,879 represents capital assets and related debt and net asset amounts restricted for specific purposes. The remaining \$660,829 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$6,196,711, which represents a 136.3 percent increase from 2006.
- ▶ General revenues accounted for \$21,393,396 or 87.5 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,032,212 or 12.5 percent of total revenues of \$24,425,608.
- ▶ The District had \$18,228,897 in expenses related to governmental activities; only \$3,032,212 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$21,393,396 were used to provide for the remainder of these programs.
- ▶ The District recognizes four major governmental funds: the General, Bond Retirement, Building, and Classroom Facilities Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$16,275,847 in revenues and \$15,302,267 in expenditures in fiscal year 2007.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield Union Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

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

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General, Bond Retirement, Building, and Classroom Facilities Funds.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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

**Proprietary Funds**

The District's two proprietary funds are internal service funds. Since the internal service funds operate on a break-even, cost-reimbursement basis, the District reports them as proprietary funds using the full accrual basis of accounting. Since the internal service funds exclusively benefits governmental functions, they have been included with governmental activities in the government-wide financial statements.

**Fiduciary Funds**

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2007 compared to fiscal year 2006:

Table 1  
**Net Assets**

	<u>Governmental Activities</u>	
		Restated
	2007	2006
<u>Assets:</u>		
Current and Other Assets	\$39,568,125	\$15,086,975
Capital Assets, Net	6,932,405	5,658,015
<i>Total Assets</i>	<u>46,500,530</u>	<u>20,744,990</u>
<u>Liabilities:</u>		
Long-Term Liabilities	29,380,383	10,770,676
Other Liabilities	6,379,439	5,430,317
<i>Total Liabilities</i>	<u>35,759,822</u>	<u>16,200,993</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	4,439,940	4,041,343
Restricted	5,639,939	373,570
Unrestricted	660,829	129,084
<i>Total Net Assets</i>	<u>\$10,740,708</u>	<u>\$4,543,997</u>

Current and other assets increased \$24,481,150 from fiscal year 2007 due to an increase in cash and cash equivalents held by the District for the classroom facilities building project. Capital assets increased by \$1,274,390 or 22.5 percent.

Current (other) liabilities increased by \$949,122 or 17.47 percent due to an increase in contracts payable for the classroom facilities building project.

Long-term liabilities increased by \$18,609,707 due to the addition of new debt for the classroom facilities building project and the addition of new capital leases.

The District's largest portion of net assets is restricted net assets. This accounts for 52.50 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The District's smallest portion of net assets is unrestricted. This accounts for 6.1 percent of net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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The remaining balance of \$4,439,940 or 41.4 percent is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

Table 2 shows the changes in net assets for fiscal year 2007 and provides a comparison to fiscal year 2006.

Table 2  
**Changes in Net Assets**

	Governmental Activities	
	2007	2006
<b><u>Revenues:</u></b>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$2,062,615	\$2,044,704
Operating Grants and Contributions	969,597	996,773
<i>General Revenue:</i>		
Property Taxes	3,944,357	4,147,814
Income Taxes	2,550,463	1,961,800
Unrestricted Grants and Entitlements	12,912,931	8,778,416
Investment Earnings	1,905,854	434,682
Miscellaneous	79,791	131,172
<i>Total Revenues</i>	<u>24,425,608</u>	<u>18,495,361</u>
<b><u>Expenses:</u></b>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	7,704,734	7,494,561
Special	1,764,269	1,713,567
Vocational	310,848	314,996
Other	318,296	320,355

(Continued)

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

Table 2  
**Changes in Net Assets**  
(Continued)

	<u>2007</u>	<u>2006</u>
<i>Support Services:</i>		
Pupils	777,115	688,870
Instructional Staff	713,720	705,568
Board of Education	44,797	17,048
Administration	1,466,350	1,472,692
Fiscal	445,595	422,589
Operation and Maintenance of Plant	1,163,811	1,384,055
Pupil Transportation	1,222,348	1,206,625
Central	150,196	100,657
<i>Operation of Non-Instructional Services:</i>		
Food Service	632,122	629,838
Other	1,000	10,690
Extracurricular Activities	635,666	600,072
Interest and Fiscal Charges	<u>878,030</u>	<u>457,159</u>
<i>Total Expenses</i>	<u>18,228,897</u>	<u>17,539,342</u>
<i>Change in Net Assets</i>	6,196,711	956,019
Net Assets – Beginning of Year, Restated	<u>4,543,997</u>	<u>4,589,557</u>
Net Assets – End of Year	<u>\$10,740,708</u>	<u>\$5,545,576</u>

The most significant program expenses for the District are Regular Instruction, Special Instruction, Administration, Pupil Transportation, and Operation and Maintenance of Plant. These programs account for 72.99 percent of the total governmental activities. Regular Instruction, which accounts for 42.23 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 9.61 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 8.05 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 6.71 percent of the total, represents costs associated with providing transportation services for students between home and school and to school activities. Operation and Maintenance of Plant, which represents 6.39 percent of the total, represent costs associated with operating and maintaining the District's facilities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs account for 68.9 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and Grants and Entitlements Not Restricted to Specific Programs and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 16.1 percent and Grants and Entitlements Not Restricted to Specific Programs made up 52.8 percent of the total revenue for the governmental activities in fiscal year 2007.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

The District voters approved another bond retirement tax levy for 3.0 mills November 2004 as part of a \$7.9 million bond issue for the renovation of the Junior-Senior High School Building and to begin the design process of three new buildings.

The District voters approved an additional income tax of 1% for 30 years in May 2007 for the completion of the renovation of the Junior-Senior High School Building and for the construction of three new buildings.

In December of 2006, the District issued \$8.2 million in general obligation bonds for funding a portion of the basic project cost of the classroom facilities project. In January of 2007, the District issued an additional \$10.0 million in general obligation bonds to repay a \$7.3 million bond anticipation note and to provide additional funds for the District's portion of the classroom facilities project.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2007, the District received \$8,225,252 through the State's foundation program, which represents 33.58 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 55.38 percent of governmental activities program expenses. Support services expenses make up 32.84 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2007 compared with fiscal year 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3  
Net Cost of Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
<i>Program Expenses:</i>				
Instruction	\$10,098,147	\$8,614,520	\$9,843,479	\$8,345,153
Support Services	5,983,932	5,398,226	5,998,104	5,419,603
Operation of Non-Instructional Services	633,122	(66,936)	640,528	(78,955)
Extracurricular Activities	635,666	372,847	600,072	354,905
Interest and Fiscal Charges	878,030	878,030	457,159	457,159
Total Expenses	<u>\$18,228,897</u>	<u>\$15,196,687</u>	<u>\$17,539,342</u>	<u>\$14,497,865</u>

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$66,436,828 and expenditures and other financing uses of \$43,164,315.

Total governmental funds fund balance increased by \$23,272,513. The increase in fund balance for the year was most significant in the Classroom Facilities Fund, which increased by \$19,339,871 during fiscal year 2007.

The District should remain stable in fiscal years 2008 through 2010. However, projections beyond fiscal year 2010 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**Budget Highlights - General Fund**

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

During the course of fiscal year 2007, the District amended its General Fund budget seven times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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For the General Fund, the final budget basis revenue was \$16,029,701 representing a \$633,789 increase from the original budget estimates \$15,395,912. The final budget reflected a 4.12 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of income taxes and intergovernmental revenue. For the General Fund, the final budget basis expenditures were \$15,622,652 representing an increase of \$16,490 from the original budget expenditures of \$15,606,162. The final budget reflected only a 0.11 percent increase from the original budgeted amount.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the District had \$12.1 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, vehicles, and library books and textbooks, of which all was in governmental activities. That total carries an accumulated depreciation of \$6.0 million. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006.

Table 4  
**Capital Assets & Accumulated Depreciation at June 30, 2007**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$356,747	\$356,747
Construction in Progress	1,578,252	0
<i>Depreciable Capital Assets:</i>		
Land Improvements	805,042	805,042
Buildings and Improvements	5,188,493	5,175,764
Furniture, Fixtures and Equipment	2,983,233	3,032,435
Vehicles	1,309,534	1,309,534
Library Books and Textbooks	691,603	693,189
<i>Total Capital Assets</i>	<u>12,912,904</u>	<u>11,372,711</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	107,476	67,233
Buildings and Improvements	2,398,817	2,353,478
Furniture, Fixtures and Equipment	2,047,403	2,037,623
Vehicles	991,061	894,491
Library Books and Textbooks	435,742	361,871
<i>Total Accumulated Depreciation</i>	<u>5,980,499</u>	<u>5,714,696</u>
Capital Assets, Net	<u>\$6,932,405</u>	<u>\$5,658,015</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
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More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

**Debt Administration**

At June 30, 2007, the District had \$27,564,548 in general obligation debt outstanding with \$155,000 due within one year. Table 5 summarizes the bonds and note outstanding for fiscal year 2007 compared to fiscal year 2006.

Table 5  
**Outstanding Debt, Governmental Activities at Year End**

Purpose	2007	2006
Energy Conservation Note	\$320,000	\$345,000
Bonds – Buildings	0	820,000
Bonds – Buses	20,000	73,000
Bonds – Buildings and Improvements	7,969,550	7,989,550
Refunding Bonds	800,000	0
Series 2006A Buses	280,000	0
Series 2006 A Bonds	8,215,000	0
Series 2007 Bonds	9,959,998	0
Total	\$27,564,548	\$9,227,550

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

**Current Issues**

Although considered a lower mid-wealth district, Fairfield Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Over half of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up just over 56 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. The careful financial planning and the passage of additional local taxes when needed have permitted the District to provide a quality education for students, along with maintenance of existing facilities.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2004 and the new court may be called upon to address the issue. On August 14, 2004 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2004 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

The Ohio General Assembly has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). Seventy (70) percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2007; after this a phase out formula would begin.

The Fairfield Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes approximately 93 percent of the District's real estate valuation.

Commercial growth saw a decrease in assessed valuation in calendar 2006. This was mainly due to the phase out of the tangible personal property tax.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)*

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On November 2, 2004, voters of the Fairfield Union Local School District approved a \$7.9 million bond issue. This issue represents the first phase of a two phased Facilities Master Plan for the District. The entire plan, if fully implemented, will result in two new elementary schools – one at Bremen and one at Pleasantville, and a new High School to be located immediately east of the current Junior-Senior High School Building.

Phase I of the project will retire short-term lease purchase agreements, provide some renovation to the current Junior-Senior High School Building, and begin the design process for the new buildings.

Phase II of the project was approved by the voters in May 2006 by passage of a 1.0 percent income tax. Phase II authorized additional bond issues of about \$18,000,000. The scope of Phase II includes the renovations to the Junior-Senior High Building, and the completion of the design, bidding and construction of three new buildings.

With passage of the May 2006 issue the District will also receive a grant of about \$38,000,000, which will fund about two-thirds of the entire Facilities Master Plan.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Kevin D. Miller, Treasurer of Fairfield Union Local School Board of Education, 7698 East Main Street, P.O. Box 63067, West Rushville, OH 43163.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*June 30, 2007*

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	<u>Governmental Activities</u>
<b><i>Assets:</i></b>	
Equity in Pooled Cash and Cash Equivalents	\$32,984,219
Cash and Cash Equivalents with Fiscal Agents	83,291
Property Taxes Receivable	4,280,178
Income Taxes Receivable	1,044,563
Accounts Receivable	2,329
Intergovernmental Receivable	65,291
Accrued Interest Receivable	563,487
Prepaid Items	1,098
Inventory Held for Resale	5,824
Materials and Supplies Inventory	80,087
Deferred Bond Issuance Cost	457,758
Nondepreciable Capital Assets	1,934,999
Depreciable Capital Assets, Net	<u>4,997,406</u>
 <i>Total Assets</i>	 <u>46,500,530</u>
 <b><i>Liabilities:</i></b>	
Accounts Payable	70,533
Accrued Wages and Benefits	1,360,610
Contracts Payable	800,626
Intergovernmental Payable	453,830
Accrued Interest Payable	97,402
Matured Compensated Absences Payable	29,714
Claims Payable	842
Deferred Revenue	3,565,882
<b><i>Long-Term Liabilities:</i></b>	
Due within One Year	249,677
Due in More Than One Year	<u>29,130,706</u>
 <i>Total Liabilities</i>	 <u>35,759,822</u>
 <b><i>Net Assets:</i></b>	
Invested in Capital Assets, Net of Related Debt	4,439,940
<b><i>Restricted for:</i></b>	
Capital Projects	4,151,721
Debt Service	1,272,108
Other Purposes	216,110
Unrestricted	<u>660,829</u>
 <i>Total Net Assets</i>	 <u><u>\$10,740,708</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2007*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b><u>Governmental Activities:</u></b>				
<i>Instruction:</i>				
Regular	\$7,704,734	\$676,796	\$85,150	(\$6,942,788)
Special	1,764,269	112,993	520,427	(1,130,849)
Vocational	310,848	28,425	0	(282,423)
Other	318,296	25,394	34,444	(258,458)
<i>Support Services:</i>				
Pupils	777,115	71,280	0	(705,835)
Instructional Staff	713,720	59,789	14,427	(639,504)
Board of Education	44,797	4,123	0	(40,674)
Administration	1,466,350	138,578	21,983	(1,305,789)
Fiscal	445,595	38,064	671	(406,860)
Operation and Maintenance of Plant	1,163,811	105,646	0	(1,058,165)
Pupil Transportation	1,222,348	101,252	0	(1,121,096)
Central	150,196	12,210	17,683	(120,303)
<i>Operation of Non-Instructional Services:</i>				
Food Services	632,122	425,246	268,866	61,990
Other	1,000	0	5,946	4,946
Extracurricular Activities	635,666	262,819	0	(372,847)
Interest and Fiscal Charges	878,030	0	0	(878,030)
<b><i>Total Governmental Activities</i></b>	<b>\$18,228,897</b>	<b>\$2,062,615</b>	<b>\$969,597</b>	<b>(15,196,685)</b>

**General Revenues:**

*Property Taxes Levied for:*

General Purposes	3,123,064
Debt Service	594,281
Capital Outlay	227,012

*Income Taxes Levied for:*

General Purposes	2,550,463
Grants and Entitlements not Restricted to Specific Programs	12,912,931
Investment Earnings	1,905,854
Miscellaneous	79,791

***Total General Revenues*** **21,393,396**

Change in Net Assets 6,196,711

*Net Assets at Beginning of Year, Restated* 4,543,997

*Net Assets at End of Year* \$10,740,708

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Balance Sheet  
Governmental Funds  
June 30, 2007*

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>						
Equity in Pooled Cash and Cash Equivalents	\$1,024,132	\$720,922	\$10,436,338	\$19,157,091	\$1,502,007	\$32,840,490
Property Taxes Receivable	3,487,919	485,933	0	0	306,326	4,280,178
Income Taxes Receivable	1,044,563	0	0	0	0	1,044,563
Accounts Receivable	2,329	0	0	0	0	2,329
Intergovernmental Receivable	0	0	0	0	65,291	65,291
Accrued Interest Receivable	9,406	0	14,099	539,982	0	563,487
Interfund Receivable	4,271	0	0	0	0	4,271
Prepaid Items	1,098	0	0	0	0	1,098
Inventory Held for Resale	0	0	0	0	5,824	5,824
Materials and Supplies Inventory	71,503	0	0	0	8,584	80,087
<i>Total Assets</i>	<u>\$5,645,221</u>	<u>\$1,206,855</u>	<u>\$10,450,437</u>	<u>\$19,697,073</u>	<u>\$1,888,032</u>	<u>\$38,887,618</u>
<b><u>Liabilities and Fund Balances:</u></b>						
<b><u>Liabilities:</u></b>						
Accounts Payable	\$68,606	\$0	\$0	\$0	\$1,927	\$70,533
Accrued Wages and Benefits	1,286,385	0	0	0	74,225	1,360,610
Contracts Payable	2,940	0	440,484	357,202	0	800,626
Intergovernmental Payable	431,183	0	0	0	22,647	453,830
Matured Compensated Absences Payable	27,884	0	0	0	1,830	29,714
Interfund Payable	0	0	0	0	4,271	4,271
Deferred Revenue	3,159,168	436,884	0	0	286,334	3,882,386
<i>Total Liabilities</i>	<u>4,976,166</u>	<u>436,884</u>	<u>440,484</u>	<u>357,202</u>	<u>391,234</u>	<u>6,601,970</u>
<b><u>Fund Balances:</u></b>						
Reserved for Encumbrances	115,332	0	879,678	5,686,938	21,183	6,703,131
Reserved for Property Taxes	328,751	49,049	0	0	19,992	397,792
<i>Unreserved, Undesignated, Reported in:</i>						
General Fund	224,972	0	0	0	0	224,972
Special Revenue Funds	0	0	0	0	782,819	782,819
Debt Service Fund	0	720,922	0	0	0	720,922
Capital Projects Funds	0	0	9,130,275	13,652,933	672,804	23,456,012
<i>Total Fund Balances</i>	<u>669,055</u>	<u>769,971</u>	<u>10,009,953</u>	<u>19,339,871</u>	<u>1,496,798</u>	<u>32,285,648</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,645,221</u>	<u>\$1,206,855</u>	<u>\$10,450,437</u>	<u>\$19,697,073</u>	<u>\$1,888,032</u>	<u>\$38,887,618</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007*

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<b>Total Governmental Funds Balances</b>	\$32,285,648
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,932,405
Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:	
Delinquent property taxes	316,504
Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.	457,758
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:	
Energy conservation notes	(320,000)
Premium on bonds issued	(381,230)
General obligation bonds	(27,244,548)
Accrued interest on notes and bonds	(97,402)
Capital leases	(353,521)
Compensated absences	<u>(1,081,084)</u>
Total liabilities that are not reported in the funds	(29,477,785)
Internal service funds are used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>226,178</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$10,740,708</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>						
Property Taxes	\$3,290,727	\$521,875	\$0	\$0	\$206,364	\$4,018,966
Income Taxes	2,550,463	0	0	0	0	2,550,463
Intergovernmental	8,815,869	61,631	0	3,961,797	1,033,389	13,872,686
Interest	156,594	0	377,574	1,278,521	83,962	1,896,651
Tuition and Fees	1,410,843	0	0	0	0	1,410,843
Extracurricular Activities	0	0	0	0	226,526	226,526
Rentals	21,112	0	0	0	0	21,112
Gifts and Donations	0	0	0	0	9,842	9,842
Charges for Services	0	0	0	0	425,246	425,246
Miscellaneous	30,239	0	0	0	28,440	58,679
<b>Total Revenues</b>	<b>16,275,847</b>	<b>583,506</b>	<b>377,574</b>	<b>5,240,318</b>	<b>2,013,769</b>	<b>24,491,014</b>
<b><u>Expenditures:</u></b>						
<i>Current:</i>						
<i>Instruction:</i>						
Regular	7,315,079	0	0	0	78,976	7,394,055
Special	1,223,102	0	0	0	534,531	1,757,633
Vocational	308,774	0	0	0	0	308,774
Other	275,989	0	0	0	42,307	318,296
<i>Support Services:</i>						
Pupils	771,479	0	0	0	0	771,479
Instructional Staff	648,587	0	0	0	8,478	657,065
Board of Education	44,815	0	0	0	0	44,815
Administration	1,480,999	0	0	0	12,634	1,493,633
Fiscal	417,439	9,107	0	0	4,647	431,193
Operation and Maintenance of Plant	1,127,020	0	0	0	700	1,127,720
Pupil Transportation	1,082,219	0	0	0	29,304	1,111,523
Central	132,696	0	0	0	17,500	150,196
Operation of Non-Instructional Services	0	0	0	0	652,855	652,855
Extracurricular Activities	394,438	0	0	0	252,735	647,173
Capital Outlay	0	0	1,058,750	578,517	55,439	1,692,706
<i>Debt Service:</i>						
Principal Retirement	59,427	7,433,000	0	0	0	7,492,427
Interest and Fiscal Charges	20,204	810,545	0	0	0	830,749
Bond Issuance Costs	0	167,501	201,365	0	0	368,866
<b>Total Expenditures</b>	<b>15,302,267</b>	<b>8,420,153</b>	<b>1,260,115</b>	<b>578,517</b>	<b>1,690,106</b>	<b>27,251,158</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>973,580</b>	<b>(7,836,647)</b>	<b>(882,541)</b>	<b>4,661,801</b>	<b>323,663</b>	<b>(2,760,144)</b>
<b><u>Other Financing Sources (Uses):</u></b>						
Proceeds from the Sale of Capital Assets	2,813	0	0	0	0	2,813
Inception of Capital Lease	54,781	0	0	0	0	54,781
Refunding Bonds Issued	0	800,000	0	0	0	800,000
General Obligation Bonds Issued	0	7,710,000	10,744,998	0	0	18,454,998
Premium on Debt Issuance	0	105,362	90,022	0	0	195,384
Notes Issued	0	0	7,300,000	0	0	7,300,000
Premium on Refunding Bonds Issued	0	9,681	0	0	0	9,681
Payment To Refunded Bond Escrow Agent	0	(785,000)	0	0	0	(785,000)
Transfers In	0	226,914	0	14,678,070	223,173	15,128,157
Transfers Out	(450,087)	0	(14,678,070)	0	0	(15,128,157)
<b>Total Other Financing Sources (Uses)</b>	<b>(392,493)</b>	<b>8,066,957</b>	<b>3,456,950</b>	<b>14,678,070</b>	<b>223,173</b>	<b>26,032,657</b>
<b>Net Change in Fund Balances</b>	<b>581,087</b>	<b>230,310</b>	<b>2,574,409</b>	<b>19,339,871</b>	<b>546,836</b>	<b>23,272,513</b>
<b>Fund Balances at Beginning of Year</b>	<b>87,968</b>	<b>539,661</b>	<b>7,435,544</b>	<b>0</b>	<b>949,962</b>	<b>9,013,135</b>
<b>Fund Balances at End of Year</b>	<b>\$669,055</b>	<b>\$769,971</b>	<b>\$10,009,953</b>	<b>\$19,339,871</b>	<b>\$1,496,798</b>	<b>\$32,285,648</b>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

**Net Change in Fund Balances - Total Governmental Funds** \$23,272,513

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,284,546
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(10,156)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Delinquent property taxes	(74,609)
Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	977,427
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from bonds issued, including a premium of \$205,065.	(19,460,063)
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities: Inception of capital leases	(54,781)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(50,732)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges.	366,025
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Increase in compensated absences Trade-in of capital leases	(99,267) 26,977
Total expenditures not reported in the funds	(72,290)
Internal service funds are used by management to charge the costs of insurance to individual funds. The net revenue of the internal service funds is reported as governmental activities.	18,831
<i>Change in Net Assets of Governmental Activities</i>	<u>\$6,196,711</u>

See accompanying notes to the basic financial statements.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues:</u></b>				
Property Taxes	\$3,315,522	\$3,377,996	\$3,374,605	(\$3,391)
Income Taxes	1,900,000	2,239,383	2,239,383	0
Intergovernmental	8,646,840	8,815,869	8,815,869	0
Interest	65,000	139,097	146,530	7,433
Tuition and Fees	1,412,550	1,409,545	1,409,796	251
Rentals	29,000	21,112	21,112	0
Miscellaneous	27,000	26,699	30,239	3,540
<i>Total Revenues</i>	15,395,912	16,029,701	16,037,534	7,833
<b><u>Expenditures:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	7,472,803	7,420,450	7,287,964	132,486
Special	1,357,347	1,356,123	1,308,388	47,735
Vocational	345,171	345,171	313,037	32,134
Other	241,497	241,497	279,250	(37,753)
<i>Support Services:</i>				
Pupils	726,759	760,760	776,735	(15,975)
Instructional Staff	699,880	700,080	674,728	25,352
Board of Education	49,015	49,015	44,815	4,200
Administration	1,466,703	1,469,324	1,441,800	27,524
Fiscal	457,297	422,033	408,638	13,395
Operation and Maintenance of Plant	1,243,162	1,246,426	1,191,897	54,529
Pupil Transportation	1,067,093	1,083,093	1,094,728	(11,635)
Central	100,918	120,918	153,502	(32,584)
Extracurricular Activities	378,517	407,762	392,896	14,866
<i>Total Expenditures</i>	15,606,162	15,622,652	15,368,378	254,274
<i>Excess of Revenues Over (Under) Expenditures</i>	(210,250)	407,049	669,156	262,107
<b><u>Other Financing Sources (Uses):</u></b>				
Proceeds from the Sale of Capital Assets	1,000	2,813	2,813	0
Transfers Out	(133,508)	(299,005)	(450,087)	(151,082)
<i>Total Other Financing Sources (Uses)</i>	(132,508)	(296,192)	(447,274)	(151,082)
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(342,758)	110,857	221,882	111,025
<i>Fund Balance at Beginning of Year</i>	501,817	501,817	501,817	0
<i>Prior Year Encumbrances Appropriated</i>	118,978	118,978	118,978	0
<i>Fund Balance at End of Year</i>	\$278,037	\$731,652	\$842,677	\$111,025

See accompanying notes to the basic financial statement.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2007*

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	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b><u>Current Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$143,729
Cash and Cash Equivalents with Fiscal Agent	<u>83,291</u>
<i>Total Current Assets</i>	<u>227,020</u>
<b><u>Current Liabilities:</u></b>	
Claims Payable	<u>842</u>
<b><u>Net Assets:</u></b>	
Unrestricted	<u><u>\$226,178</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Revenues,  
Expenses and Changes in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007*

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	Governmental Activities
	Internal Service Funds
<b><u>Operating Revenues:</u></b>	
Charges for Services	\$1,806,147
Other	2,475
<i>Total Operating Revenues</i>	<u>1,808,622</u>
<b><u>Operating Expenses:</u></b>	
Fringe Benefits	1,643,011
Purchased Services	4,870
Materials and Supplies	2,475
Claims	148,638
<i>Total Operating Expenses</i>	<u>1,798,994</u>
<i>Operating Income (Loss)</i>	9,628
<b><u>Nonoperating Revenue:</u></b>	
Interest	9,203
<i>Change in Net Assets</i>	18,831
<i>Net Assets at Beginning of Year</i>	<u>207,347</u>
<i>Net Assets at End of Year</i>	<u><u>\$226,178</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Fiscal Year Ended June 30, 2007*

	Governmental Activities
	Internal Service Funds
<hr/>	
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>	
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Interfund Services Provided	\$1,806,147
Other Cash Receipts	2,475
Cash Payments to Employees for Services	
Cash Payments for Employee Benefits	(1,643,011)
Cash Payments for Goods and Services	(7,345)
Cash Payments for Claims	(322,194)
	<hr/>
<i>Net Cash from Operating Activities</i>	(163,928)
	<hr/>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest on Investments	9,203
	<hr/>
<i>Net Cash from Investing Activities</i>	9,203
	<hr/>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(154,725)
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	381,745
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$227,020
	<hr/> <hr/>
<b><u>Reconciliation of Operating Income (Loss)</u></b>	
<b><u>to Net Cash from Operating Activities:</u></b>	
Operating Income (Loss)	\$18,831
<b><u>Adjustments to Reconcile Operating Income (Loss)</u></b>	
<b><u>to Net Cash from Operating Activities:</u></b>	
<i>Increase (Decrease) in Liabilities:</i>	
Claims Payable	(173,556)
	<hr/>
Total Adjustments	(173,556)
	<hr/>
<i>Net Cash from Operating Activities</i>	(\$154,725)
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Fiduciary Net Assets*

*Fiduciary Fund*

*June 30, 2007*

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	<u>Agency</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$156,683</u>
<b><u>Liabilities:</u></b>	
Undistributed Monies	<u>\$156,683</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

**Description of the School District**

Fairfield Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. It is staffed by 77 non-certificated employees, 139 certificated full-time teaching personnel and 9 administrative employees who provide services to 2,068 students and other community members. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Fairfield Union Local School 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 no component units.

The District is associated with five organizations, four of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations are the Metropolitan Educational Council, the Fairfield County Council for Educational Collaboration, Central Ohio Special Education Regional Resource Center, the South Central Ohio Insurance Consortium and the Shakley Unservile Inc. Workers' Compensation Group Rating Plan. These organizations are presented in Notes 21 and 22 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

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

**B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

**Governmental Funds**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

The following are the District's major governmental funds:

**General Fund**- This fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Bond Retirement Fund**- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

**Building Fund**- This fund is used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

**Classroom Facilities Fund**- This Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

**Proprietary Fund**

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The internal service funds of the District account for a self-insurance program, which provides health and dental insurance benefits to employees, and the District's class play activities.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Nonexchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: property taxes available for advance, grants and interest.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

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

During the fiscal year 2007, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), money market funds, and federal agency securities. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$156,594.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

**F. Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

**G. Prepaid Items**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks and capital improvements. See Note 19 for additional information regarding set-asides.

**I. Capital Assets**

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Improvements	15 - 99 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

**L. Accrued Liabilities and Long-Term Liabilities**

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Capital leases, bonds and long-term notes are recognized as a liability on the fund financial statements when due.

**M. Net Assets**

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Fund Balance Reserves**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

**P. Interfund Transactions**

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 interfund transfers. Interfund 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.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2007, the District reported no extraordinary or special items.

**R. Estimates**

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

**S. Budgetary Process**

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**NOTE 3 - PRIOR PERIOD ADJUSTMENT**

The District's medical and dental insurance is provided through the South Central Ohio Insurance Consortium (SCOIC). In previous years, the medical and dental insurance has been accounted for as a self-funded plan. After a review of their policies and agreements, the SCOIC has determined that the medical insurance portion of the program is not a self-funded plan, but is actually premium based plan for which the District does not have a liability or a claim to the cash paid to the SCOIC for this plan. A prior period adjustment has been made to eliminate claims payable and cash held by fiscal agent for the medical insurance portion of the District's plan as of June 30, 2006, which resulted in the decrease of net assets of the Internal Service Fund and Governmental Activities.

	Governmental Activities	Internal Service Fund
Net Assets at June 30, 2006	\$5,545,576	\$1,208,926
Decrease Cash Held by Fiscal Agent	(1,170,097)	(1,170,097)
Decrease Claims Payable	168,518	168,518
Adjusted Net Assets at June 30, 2006	<u>\$4,543,997</u>	<u>\$207,347</u>

**NOTE 4 - ACCOUNTABILITY**

The following funds had deficit fund balances as of June 30, 2007:

EMIS	\$115
Entry Year	4
Summer Intervention	2,727
PBA Grant	3,890
IDEA-B Grant	664
Title V	166
Title IV	397

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

The major differences between the budget basis and modified accrual GAAP basis are that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
Budget Basis	\$221,882
<i>Adjustments:</i>	
Revenue Accruals	238,313
Expenditure Accruals	(119,619)
Encumbrances	185,730
Other Sources (Uses)	54,781
GAAP Basis	<u><u>\$581,087</u></u>

**NOTE 6 - 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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (Continued)

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

Public depositories must give security for all public funds on deposit. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value 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;
6. The State Treasurer's investment pool (STAROhio);
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 interim monies available for investment at any time; and
8. Under limited 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. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 6 - DEPOSITS AND INVESTMENTS** (Continued)

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2007, the carrying amount of all District deposits was \$15,657,187 which includes \$83,291 cash with fiscal agent. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2007, \$15,349,321 of the District's bank balance of \$15,582,921 was exposed to custodial credit risk as discussed above while \$233,600 was covered by Federal Depository Insurance. The \$15,349,321 exposed to custodial risk was collateralized with securities held by the pledging financial institution or its agent in the District's name.

**Investments:** As of June 30, 2007, the District had the following investments and maturities:

Investment Type	Fair Value	Less Than One Year	One to Five Years
STAROhio	\$10,947,354	\$10,947,354	\$0
Money Market	5,663,592	5,663,592	0
U.S. Treasury Bonds and Notes	956,060	856,060	100,000
Totals	<u>\$17,567,006</u>	<u>\$17,467,006</u>	<u>\$100,000</u>

**Interest Rate Risk:** Interest rate risk is the risk, that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's has assigned STAROhio an "AAAm" rating. Moody's has assigned U.S. Treasury Obligations an "Aaa" rating. The money market funds were unrated.

**Custodial Credit Risk:** For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party's trust department or agent, and may be held in the name of the District or not.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. U.S. Treasury Bonds and Notes comprised 5.44%, Money Market comprised 32.24%, and STAROhio comprised 62.32% of the School District's investments.

**NOTE 7 - SCHOOL INCOME TAXES**

The District currently benefits from a 2.00% income tax, which is assessed on all residents of the District. The District apportions all the proceeds to the General Fund. During fiscal year 2007, the District received \$2,550,463 from the school income tax.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 8 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value for capital assets and 24% of true value for inventory.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or 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.

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

Accrued property taxes receivable represents the June 2007 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2007 was \$397,792 and is recognized as revenue. Of this total amount, \$328,751 was available to the General Fund, \$49,049 was available to the Bond Retirement Fund, and \$19,992 was available to the Permanent Improvement Fund.

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

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$157,434,350	91.97%	\$162,709,510	92.92%
Public Utility Personal	10,665,280	6.23%	10,711,840	6.12%
Tangible Personal Property	3,075,218	1.80%	1,685,235	0.96%
Total Assessed Value	<u>\$171,174,848</u>	<u>100.00%</u>	<u>\$175,106,585</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.90		\$47.40	

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2007 consisted of property and income taxes, accounts (student fees), interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
<i>Other Governmental Funds:</i>	
Lunchroom	\$31,410
IDEA-B Grant	763
Title I	21,788
Title V	137
Title IV	382
Title II-A	<u>10,811</u>
Total Intergovernmental Receivable	<u><u>\$65,291</u></u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 10 - CAPITAL ASSETS**

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

Asset Category	Balance at July 1, 2006	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2007
<i>Nondepreciable Capital Assets:</i>				
Land	\$356,747	\$0	\$0	\$356,747
Construction in Progress	0	1,578,252	0	1,578,252
Total Nondepreciable Capital Assets	356,747	1,578,252	0	1,934,999
<i>Depreciable Capital Assets:</i>				
Land Improvements	805,042	0	0	805,042
Buildings and Improvements	5,175,764	12,729	0	5,188,493
Furniture, Fixtures and Equipment	3,032,435	104,177	(153,379)	2,983,233
Vehicles	1,309,534	0	0	1,309,534
Library Books and Textbooks	693,189	0	(1,586)	691,603
Total Depreciable Capital Assets	11,015,964	116,906	(154,965)	10,977,905
Total Capital Assets	11,372,711	1,695,158	(154,965)	12,912,904
<i>Accumulated Depreciation:</i>				
Land Improvements	(67,233)	(40,243)	0	(107,476)
Buildings and Improvements	(2,353,478)	(45,339)	0	(2,398,817)
Furniture, Fixtures and Equipment	(2,037,623)	(154,219)	144,439	(2,047,403)
Vehicles	(894,491)	(96,570)	0	(991,061)
Library Books and Textbooks	(361,871)	(74,241)	370	(435,742)
Total Accumulated Depreciation	(5,714,696)	(410,612)	144,809	(5,980,499)
Total Net Capital Assets	\$5,658,015	\$1,284,546	(\$10,156)	\$6,932,405

Of the capital assets, \$431,223 are assets that are under capital lease. These assets under capital lease have an accumulated depreciation of \$83,798.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 10- CAPITAL ASSETS** - (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$161,911
Special	930
Vocational	2,817
<i>Support Services:</i>	
Pupils	2,938
Instructional Staff	94,044
Administration	6,446
Fiscal	1,405
Operation and Maintenance of Plant	18,428
Pupil Transportation	97,663
<i>Operation of Non-Instructional Services:</i>	
Food Service	5,705
Extracurricular Activities	18,325
	<hr/>
Total Depreciation Expense	<u><u>\$410,612</u></u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the District contracted with Ohio School Plan for professional and general liability insurance and Indiana Insurance for property and fleet insurance. Coverages provided are as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$31,712,400
Musical Instruments (\$500 deductible)	100,000
Automobile Liability (\$500 deductible)	
Per Person	3,000,000
Per Accident	1,000,000
Uninsured Motorists	
Per Person	1,000,000
Per Accident	3,000,000
<i>General Liability:</i>	
Per Occurrence (\$1,000 deductible)	1,000,000
Aggregate Limit	4,000,000
Public Official Bonds	
Treasurer	100,000
Superintendent/Board President (each)	20,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2007, the District participated in the Shakley Unservile Inc. Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 21). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to a third party administrator, South Central Ohio Insurance Consortium, out of the District's Self-Insurance Internal Service Fund. EV Benefits services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 11 - RISK MANAGEMENT** - (Continued)

The claims liability of \$842 reported at June 30, 2007 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2006	\$120,294	\$1,400,748	\$1,346,644	\$174,398
2007	174,398	148,638	322,194	842

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**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 financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006 (the latest information available), 10.58 percent of the annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$270,881, \$257,349, \$317,961, respectively; 47.81 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$141,378 representing the unpaid contribution for fiscal year 2007, is recorded as a liability on the statement of net assets.

**State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 12 - DEFINED BENEFIT 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

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.

Plan members are required to contribute 10.0 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006 (the latest information available), the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,049,700, \$1,001,644, and \$994,799, respectively; 83.17 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$163,966 representing the unpaid contribution for fiscal year 2007, is recorded as a liability on the statement of net assets.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, four members of the Board of Education have elected Social Security.

**NOTE 13 - POSTEMPLOYMENT 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-certificated 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.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 13 - POSTEMPLOYMENT BENEFITS** - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients 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 fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$74,935 during fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information year available). For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2006 (the latest information available), employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information year available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. The number of participants currently receiving health care benefits is approximately 59,492. For the District, the amount to fund health care benefits, including the surcharge, equaled \$119,815 during the 2007 fiscal year.

**NOTE 14 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 232 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 58 days classified employees and 58 days for certified employees. In addition, certified employees who retire at thirty years of service and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 58 days.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 15 - NOTE OBLIGATIONS**

The changes in the District's short-term note obligations during fiscal year 2007 are as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2007</u>
<u>Governmental Activities:</u>						
Bond Anticipation Note	2007	4.50%	\$0	\$7,300,000	\$7,300,000	\$0
Total Governmental Activities Note Obligations			<u>\$0</u>	<u>\$7,300,000</u>	<u>\$7,300,000</u>	<u>\$0</u>

On August 10, 2006, the District issued a \$7,300,000 bond anticipation note. This debt was issued by the Bond Retirement Fund for the District's portion of the Ohio School Facilities Commission Project. The note matured on March 1, 2007 and was paid out of the Building Fund.

**NOTE 16 - LONG-TERM LIABILITIES**

The changes in the District's long-term liabilities during fiscal year 2007 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding at June 30, 2007</u>	<u>Amount Due in One Year</u>
<u>Governmental Activities:</u>						
Energy Conservation Note	4.85%	\$345,000	\$0	\$25,000	\$320,000	\$30,000
Bonds - Buildings	5.90%	820,000	0	820,000	0	0
Bonds - Buses	5.00%	73,000	0	53,000	20,000	20,000
Bonds - Buildings and Improvements	4.10%	7,989,550	0	20,000	7,969,550	30,000
Refunding HS Bond	4.20%	0	800,000	0	800,000	45,000
Series 2006A - Buses	4.20%	0	280,000	0	280,000	25,000
Series 2006A - Bonds	4.20%	0	8,215,000	0	8,215,000	5,000
Series 2007 - Bonds	4.10%	0	9,959,998	0	9,959,998	0
Premium on Bonds Issued	N/A	182,457	205,065	6,292	381,230	6,292
Discounts on Bonds Issued	N/A	0	0	0	0	0
Capital Leases Payable	N/A	385,144	54,781	86,404	353,521	75,093
Compensated Absences	N/A	975,525	354,050	248,491	1,081,084	13,292
Total Governmental Activities Long-Term Liabilities		<u>\$10,770,676</u>	<u>\$19,868,894</u>	<u>\$1,259,187</u>	<u>\$29,380,383</u>	<u>\$249,677</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 16 - LONG-TERM LIABILITIES** - (Continued)

*Energy Conservation Note* - In December, 1997, Fairfield Union Local School District issued general obligation notes for H. B. 264 energy improvements. The notes were issued for \$1,047,892 at 4.4% interest and mature December 2006. The balance of this debt was refinanced in November, 1998 extending the payment schedule an additional five years. In June, 1999 the District issued additional general obligation notes for H. B. 264 energy improvements. The notes were issued for \$425,000 at 4.85% interest and mature December, 2013.

*General Obligation Bonds - Buildings* -The \$820,000 of outstanding general obligation bonds relate to two projects. In 1993, bonds were issued for the purpose of an addition, remodeling and equipping the middle school building and improving the site thereof and an activity center at the high school. The bonds were issued for \$1,150,000 at 5.9% interest and mature December, 2018. Due to the issuance of refunding bonds, these bonds were paid off during the fiscal year.

*General Obligation Bonds - Buses* -In February of 1996, the District issued \$260,000 in general obligation bus bonds for the purchase of five school buses. These bonds were paid off during the fiscal year. In February of 1998, the District issued \$164,000 in general obligation bus bonds for the purchase of school buses. The bonds have an interest of 5% and mature in 2008.

*General Obligation Bonds - Buildings and Improvements* - In April 2006, general obligation bonds at 4.10% interest were issued in the amount of \$7,989,550, as a result of the District being approved for school facilities funding through the State Department of Education for the renovation of the Junior-Senior High School Building and to begin the design process for three new buildings. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 3 mill levy in November 2005. Of the 3 mill levy, 2.5 mills is used for the retirement of the bonds that were issued and are in effect for thirty years. The remaining .5 mill is used for repairs and maintenance of the facility. As a part of this funding process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the thirty year period expires. If the District's adjusted valuation per pupil increase above the state-wide median adjusted valuation during the thirty year period, the District may become responsible for repayment of a portion of the State's contribution.

*Refunding General Obligation Bonds* - During fiscal year 2007, the District issued \$800,000 of general obligation bonds at 4.2% for the advance refunding of \$820,000 of the 1993 building bonds. The proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments. The payment to the escrow agent resulted in an in-substance defeasance of the Building Bonds. As a result, the liability for the Building Bonds was removed as a liability of the District. At June 30, 2007, the balance of funds in the escrow account was \$785,000.

*General Obligation Bonds - Series 2006A - Buses* - In December of 2006, the District issued \$280,000 in general obligation bus bonds for the purchase of school buses. These bonds have an interest of 4.20% and mature in 2021.

*General Obligation Bonds - Series 2006A - Classroom Facilities* - In December of 2006, The District issued \$8,215,000 in general obligation bonds for purpose of funding a portion of the basic project cost of a classroom facilities project in accordance with a Project Agreement with the Ohio School Facilities Commission. These bonds have an interest of 4.20% and mature in 2021.

*General Obligation Bonds - Series 2007* - The general obligation bonds were issued in the amount of \$9,959,998 at 4.1% interest in January 2007 to repay the bond anticipation notes. The District issued the general obligation bonds to cover the District's share of the Ohio School Facilities Commission Project.

The District's notes and bonds are paid from the Bond Retirement Debt Service Fund. The capital leases are all paid from the General Fund. The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was (\$2,786,617) with an unvoted debt margin of \$175,107 at June 30, 2007.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 16 - LONG-TERM LIABILITIES** - (Continued)

The annual requirements to retire the energy conservation note and general obligation bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation Note</u>	<u>Bus Bonds</u>	<u>Building &amp; Improvement Bonds</u>	<u>Refunding HS Bonds</u>
2008	\$44,793	\$21,000	\$408,235	\$76,100
2009	48,217	0	411,685	74,300
2010	51,397	0	429,435	82,300
2011	54,336	0	431,560	85,000
2012	57,033	0	443,185	87,500
2013-2017	126,062	0	2,506,300	439,800
2018-2022	0	0	2,848,300	166,400
2023-2027	0	0	3,133,586	0
2028-2032	0	0	3,485,431	0
2033-2034	0	0	1,485,338	0
Total Debt Payments	381,838	21,000	15,583,055	1,011,400
Less: Amount Representing Interest	61,838	1,000	7,613,505	211,400
Total Principal	<u>\$320,000</u>	<u>\$20,000</u>	<u>\$7,969,550</u>	<u>\$800,000</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 16 - LONG-TERM LIABILITIES - (Continued)**

Fiscal Year Ending June 30,	Series 2006A Buses	Series 2006A Bonds	Series 2007 Bonds	Total
2008	\$36,500	\$351,781	532,944	1,471,353
2009	35,500	444,681	573,069	1,587,452
2010	34,500	514,181	531,069	1,642,882
2011	33,500	507,181	535,469	1,647,046
2012	32,500	529,581	549,469	1,699,268
2013-2017	172,663	2,925,922	2,984,925	9,155,672
2018-2022	0	3,025,638	4,053,306	10,093,644
2023-2027	0	3,017,701	4,741,143	10,892,430
2028-2032	0	1,808,990	1,890,962	7,185,383
2033-2034	0	0	0	1,485,338
Total Debt Payments	345,163	13,125,656	16,392,356	46,860,468
Less: Amount Representing Interest	65,163	4,910,656	6,432,358	19,295,920
Total Principal	<u>\$280,000</u>	<u>\$8,215,000</u>	<u>\$9,959,998</u>	<u>\$27,564,548</u>

**NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE**

During the year, the District entered into one new capital leases for the acquisition of a copiers. The lease agreement is accounted for as program/function expenditures in the General with an offsetting amount reported as an other financing source, inception of capital lease. The District also had other capital leases outstanding from prior years. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability has been recorded as a long-term obligation. Principal payments in fiscal year 2007 totaled \$59,427. The District also had \$26,977 of capital lease trade-ins during fiscal year 2007.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE** - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2007.

Fiscal Year Ending June 30,	Lease Payments
2008	\$75,093
2009	74,491
2010	70,287
2011	55,444
2012	36,363
2013-2016	104,866
Total Debt Payments	416,544
Less: Amount Representing Interest	63,023
Total Principal	\$353,521

**NOTE 18 - INTERFUND ACTIVITY**

As of June 30, 2007, transfers were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$450,087
Bond Retirement Fund	226,914	0
Building Fund	0	14,678,070
Classroom Facilities Fund	14,678,070	0
<i>Other Governmental Funds:</i>		
Classroom Facilities Maintenance	171,348	0
Summer Intervention	20,000	
Safe School Hotline	2,826	
Permanent Improvement Levy	28,999	0
Total Other Governmental Funds	223,173	0
Totals	\$15,128,157	\$15,128,157

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**NOTE 18 - INTERFUND ACTIVITY** - (Continued)

Transfers are generally used to either (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Bond Retirement Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year ended 2007, the District made transfers of \$223,173 from the General Fund to Other Governmental Funds for various purposes.

During fiscal year ended 2007, the District made a transfer of \$226,914 from the General Fund to the Bond Retirement Debt Service Fund to make debt payments.

**NOTE 19 - STATUTORY SET-ASIDES**

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2007:

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Totals</u>
Set-Aside Balance as of July 1, 2006	\$0	\$0	\$0
Current Year Set-Aside Requirement	297,655	297,655	595,310
Qualifying Disbursements	<u>(402,294)</u>	<u>(422,087)</u>	<u>(824,381)</u>
Total	<u>(104,639)</u>	<u>(124,432)</u>	<u>(229,071)</u>
Set-Aside Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>	
Total Restricted Assets			<u>\$0</u>

Although the District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts, only the excess in the textbook reserve account can be carried forward to offset future years' textbook set-aside requirements. Each reserve must be represented by restricted cash at year-end and carried forward to be used for the same purposes in future years.

**NOTE 20 - CONTRACTUAL COMMITMENTS**

As of June 30, 2007, the District had contractual commitments related to the construction of new facilities. The amount for each contractor is as follows:

<u>Contractor</u>	<u>Purchase Commitments</u>	<u>Amounts Paid as of June 30, 2007</u>	<u>Amounts Remaining on Contracts</u>
Burgess & Niple, Inc.	\$3,811,899	\$1,482,730	\$2,329,169
Bovis Lend Lease	445,385	0	445,385
Lockwood, Lanier, Mathias & Noland, Inc.	34,230	27,726	6,504
Bovis-CM State	2,769,477	49,709	2,719,768
Smalley & Associates	27,726	18,087	9,639
Total	<u>\$7,088,717</u>	<u>\$1,578,252</u>	<u>\$5,510,465</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 21 - JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Education Council (MEC)**

Metropolitan Education Council, is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

**Fairfield County Council for Educational Collaboration**

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school system and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council. The District appoints the superintendent to be its representative to the Board of Directors of this council. The District has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration.

**South Central Ohio Insurance Consortium (SCOIC)**

South Central Ohio Insurance Consortium is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

**Central Ohio Special Education Regional Resource Center (COSERRC)**

Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts in Central Ohio. The District participates in services that assist the District in complying with Mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the District. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERRC.

**NOTE 22 - INSURANCE PURCHASING POOL**

**Shakley Unservile Inc. Worker's Compensation Group Rating Plan**

The District participates in a Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool with the Shakley Company. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**NOTE 23 - CONTINGENCIES**

**Grants**

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

**NOTE 24 - COMPLIANCE AND ACCOUNTABILITY**

During fiscal year 2007, the District was not in compliance with Ohio Rev. Code Section 5705.41(B) whereas expenditures plus encumbrances exceeded the existing appropriation measure. This issue occurred due to the timing of the approval of the appropriation measure. The appropriation measure was subsequently approved by the Board of Education, as required.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

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

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

### **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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

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

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KENNEDY COTTRELL RICHARDS LLC

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

December 28, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

To the Board of Education

**Compliance**

We have audited the compliance of Fairfield Union Local School District, Fairfield County, Ohio (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 are applicable to its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Government'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 such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Kennedy Cottrell Richards LLC  
December 28, 2007

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal grantor/Pass through grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass through number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Pass-through State Department of Education:</i>						
Nutrition Cluster:						
National School Breakfast Program	10.553	046888-05PU	\$ 35,787	\$ -	\$ 35,787	\$ -
National School Lunch Program	10.555	046888-LLP4	167,319	-	167,319	-
Total Nutrition Cluster			<u>203,106</u>	<u>-</u>	<u>203,106</u>	<u>-</u>
<i>Pass-through State Department of Education:</i>						
Food Distribution	10.550	N/A	-	53,499	-	53,805
Total U.S. Department of Agriculture			<u>203,106</u>	<u>53,499</u>	<u>203,106</u>	<u>53,805</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Pass-through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	84.010	046888-C1S1	158,014	-	165,808	-
Special Education--Grants to States--Title VI-B	84.027	046888-6BSF	371,851	-	373,250	-
Safe and Drug Free Schools -- State Grant	84.186	046888-DRS1	5,964	-	6,070	-
Innovative Education Program Strategy, Title V	84.298	046888-C2S1	2,758	-	2,671	-
Title II-D Technology Fund	84.318	046888-TJS1	1,761	-	1,346	-
Title II-A -- Improving Teacher Quality	84.367	046888-TRS1	73,682	-	75,191	-
Total U.S. Department of Education			<u>614,030</u>	<u>-</u>	<u>624,336</u>	<u>-</u>
<b><u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>						
<i>Pass-through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778		8,348		8,348	
Total Department of Job and Family Services			<u>8,348</u>	<u>-</u>	<u>8,348</u>	<u>-</u>
Total Receipts and Expenditures of Federal Awards			<u>\$ 825,484</u>	<u>\$ 53,499</u>	<u>\$ 835,790</u>	<u>\$ 53,805</u>

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2007**

**(1) General**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Fairfield Union Local School District (the District) as the primary government. The District's reporting entity is defined in Note 1 to the District's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies is included on the Schedule.

**(2) Basis of Accounting**

The accompanying Schedule is presented on a cash basis of accounting in which revenues are recognized when received and expenses are recognized when paid.

**(3) Noncash Programs**

The District values its noncash programs (National School Lunch Program) on the basis of the value of the goods received during the fiscal year.

**(4) Revenue**

The revenue balances are reported net of refunds to the governmental agency.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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(a) of Circular A-133?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes



FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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

**2007-1 Material Weakness – Financial Reporting**

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the District. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit. As a result of our audit, we identified material misstatements in the District's financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. We provided adjusting entries to the Treasurer that were posted and subsequently corrected the misstatements. The misstatements are an indicator the District needs to improve or strengthen their existing control procedures related to financial reporting.

We recommend the District consider modifying the existing control procedures over the financial reporting process to include an independent review of the financial statements and the related journal entries. The review should be conducted by an individual that is knowledgeable of generally accepted accounting principles and the review should take place prior to the start of the audit.

Official's Response

As part of the District's modification of internal controls over financial reporting procedures, we will review, before closing the fiscal year, the District's financial reports and related journal entries with a consultant to make sure any misstatements are corrected.

**2007-2 Noncompliance: Expenditures Exceeded Appropriations**

Ohio Revised Code Section 5705.41(B) provides, in part, that no subdivision or taxing unit shall "make any expenditure of money unless it has been appropriated as provided in such chapter."

In October 2007, the District's total of cash-basis expenditures, plus encumbrances, in its Debt Service Fund exceeded the amount appropriated for the fund by \$204,563.

In December 2007, the District's total of cash-basis expenditures, plus encumbrances, in its School Facilities Project Fund exceeded the amount appropriated for the fund by \$5,883,111.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2007**

In May 2007, the District's total of cash-basis expenditures, plus encumbrances, in its Debt Service Fund exceeded the amount appropriated for the fund by \$172,257.

We recommend that the District implement monitoring procedures to ensure that amounts are properly appropriated prior to encumbering or expending funds.

Official's Response

The Board of Education at the annual organizational meeting authorizes the treasurer to make appropriate modifications within a particular fund including intra-fund transfers and to add new appropriation as necessary to conduct the financial business of the school district. In the above items the official appropriations were amended at the next board meeting following the month the appropriations were changed in the financial records. It should be noted that the district had funds available to pay these expenditures. It should also be noted that at no time was the District in a fund deficit position, nor were actual cash expenditures made from the above noted funds only encumbrances. The District management will continue to monitor and implement procedures as necessary to remain in compliance with the applicable sections of the Ohio Revised Code.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.



**Mary Taylor, CPA**  
Auditor of State

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
**FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**FEBRUARY 7, 2008**