

**FAIRBANKS LOCAL
SCHOOL DISTRICT
UNION COUNTY, OHIO**
*BASIC FINANCIAL STATEMENTS
(AUDITED)*
*FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*

AARON S. JOHNSON, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Fairbanks Local School District
11158 State Route 38
Milford Center, Ohio 43045-9764

We have reviewed the *Independent Auditor's Report* of the Fairbanks Local School District, Union County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Fairbanks Local School District is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

February 16, 2006

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Fairbanks Local School District
11158 State Route 38
Milford Center, OH 43045-9764

We have audited the accompanying financial statements of the governmental activities, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, Union County, (the "District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, Union County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 20, 2005

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

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

The management's discussion and analysis of Fairbanks Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$274,143. Net assets of governmental activities decreased \$281,345, which represents a 5.64% decrease from 2004. Net assets of business-type activities increased \$7,202 from 2004.
- General revenues accounted for \$7,393,637 in revenue or 90.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$779,946 or 9.54% of total revenues of \$8,173,583.
- The District had \$8,454,928 in expenses related to governmental activities; only \$779,946 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,393,637 were not adequate to provide for the programs.
- The District's major governmental fund is the general fund. The general fund had \$7,416,062 in revenues and other financing sources and \$7,731,198 in expenditures and other financing uses. The general fund's fund balance decreased \$315,136 from a restated balance of \$1,363,573 to \$1,048,437.
- Net assets for the District's enterprise fund increased \$7,202. The Fairbanks Elementary Extended Day Program (F.E.E.D. Program) non-major enterprise fund had \$64,829 in operating revenues and \$57,627 in operating expenses.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's F.E.E.D. Program operations are reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund and the analysis of the District's enterprise fund begin on page 9. 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 only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. 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. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

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

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

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 26-50 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below shows the net assets for governmental activities and business-type activities fiscal years 2005 and 2004.

	Net Assets					
	Governmental Activities		Business-Type Activities		Total	Total
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current assets	\$6,127,410	\$5,454,804	\$ 6,896	\$ 4,194	\$ 6,134,306	\$ 5,458,998
Capital assets	<u>4,032,021</u>	<u>4,020,536</u>	<u>-</u>	<u>-</u>	<u>4,032,021</u>	<u>4,020,536</u>
Total assets	<u>10,159,431</u>	<u>9,475,340</u>	<u>6,896</u>	<u>4,194</u>	<u>10,166,327</u>	<u>9,479,534</u>
<u>Liabilities</u>						
Current liabilities	4,939,778	3,908,733	3,921	8,421	4,943,699	3,917,154
Long-term liabilities	<u>633,599</u>	<u>699,208</u>	<u>-</u>	<u>-</u>	<u>633,599</u>	<u>699,208</u>
Total liabilities	<u>5,573,377</u>	<u>4,607,941</u>	<u>3,921</u>	<u>8,421</u>	<u>5,577,298</u>	<u>4,616,362</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	3,752,021	3,716,060	-	-	3,752,021	3,716,060
Restricted	142,965	146,742	-	-	142,965	146,742
Unrestricted (deficit)	<u>691,068</u>	<u>1,004,597</u>	<u>2,975</u>	<u>(4,227)</u>	<u>694,043</u>	<u>1,000,370</u>
Total net assets	<u>\$4,586,054</u>	<u>\$4,867,399</u>	<u>\$ 2,975</u>	<u>\$ (4,227)</u>	<u>\$ 4,589,029</u>	<u>\$ 4,863,172</u>

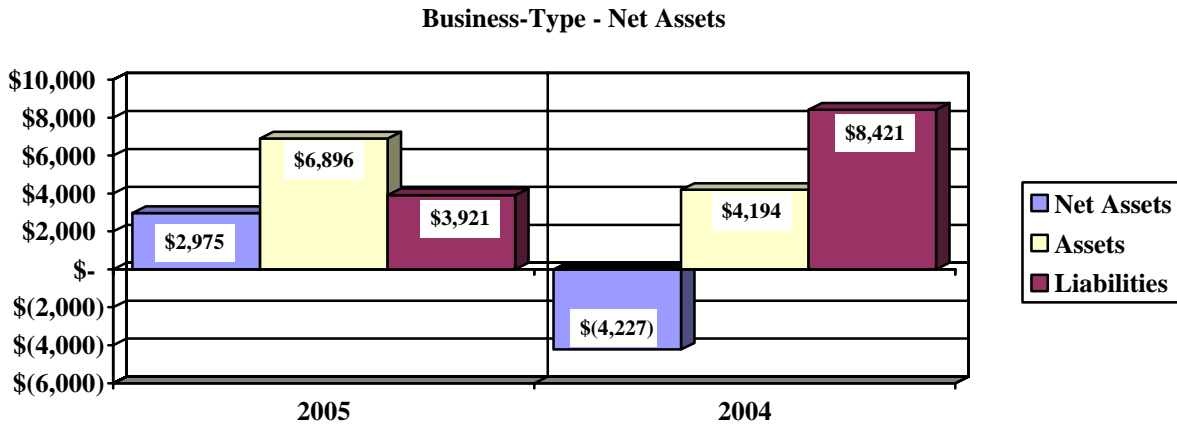
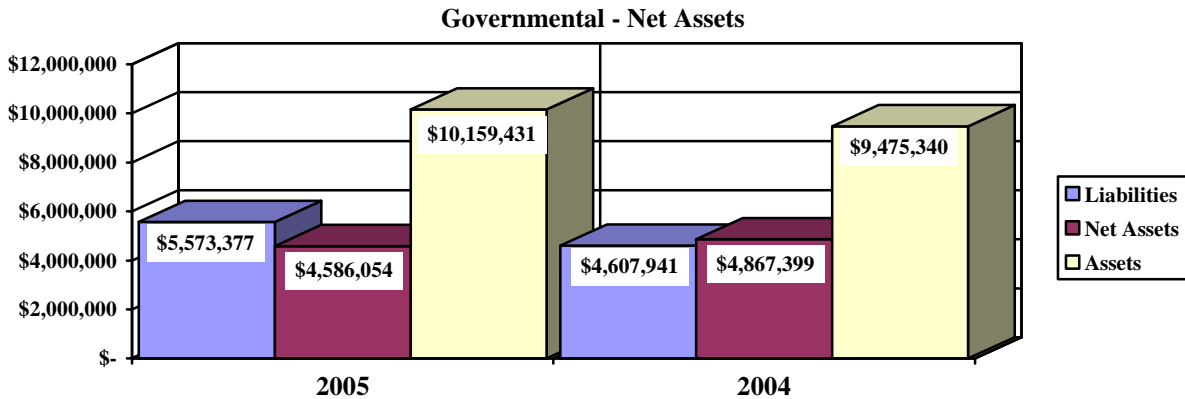
**FAIRBANKS LOCAL SCHOOL DISTRICT
UNION COUNTY, OHIO**

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

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$4,589,029. \$4,586,054 of this total is in governmental activities, and \$2,975 is in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the District's net assets. At year-end, capital assets represented 39.69% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$3,752,021 in the governmental activities. These capital assets are used to provide services to students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$142,965, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$691,068 may be used to meet the District's ongoing obligations to the students and creditors.



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

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

The table below shows the change in net assets for governmental activities and business-type activities fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Revenues</u>						
Program revenues:						
Charges for services and sales	\$ 300,159	\$ 256,018	\$ 64,829	\$ 37,473	\$ 364,988	\$ 293,491
Operating grants and contributions	472,542	440,145	-	-	472,542	440,145
Capital grants and contributions	7,245	-	-	-	7,245	-
General revenues:						
Taxes	4,885,648	4,680,933	-	-	4,885,648	4,680,933
Grants and entitlements	2,377,749	2,202,319	-	-	2,377,749	2,202,319
Investment earnings	47,432	26,182	-	-	47,432	26,182
Other	82,808	85,745	-	-	82,808	85,745
Total revenues	<u>8,173,583</u>	<u>7,691,342</u>	<u>64,829</u>	<u>37,473</u>	<u>8,238,412</u>	<u>7,728,815</u>
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	3,696,158	3,762,535	-	-	3,696,158	3,762,535
Special	592,963	552,353	-	-	592,963	552,353
Vocational	1,352	5,356	-	-	1,352	5,356
Support services:						
Pupil	477,703	341,897	-	-	477,703	341,897
Instructional staff	394,827	379,105	-	-	394,827	379,105
Board of Education	48,457	37,898	-	-	48,457	37,898
Administration	807,740	792,788	-	-	807,740	792,788
Fiscal	299,758	275,924	-	-	299,758	275,924
Operations and maintenance	788,379	691,338	-	-	788,379	691,338
Pupil transportation	691,297	573,798	-	-	691,297	573,798
Central	2,324	6,000	-	-	2,324	6,000
Food service	185,611	159,203	-	-	185,611	159,203
Operation of non-instructional services	205,605	165,245	-	-	205,605	165,245
Extracurricular activities	248,665	223,917	-	-	248,665	223,917
Interest and fiscal charges	14,089	15,069	-	-	14,089	15,069
F.E.E.D. Program	-	-	57,627	44,182	57,627	44,182
Total expenses	<u>8,454,928</u>	<u>7,982,426</u>	<u>57,627</u>	<u>44,182</u>	<u>8,512,555</u>	<u>8,026,608</u>
Changes in net assets	(281,345)	(291,084)	7,202	(6,709)	(274,143)	(297,793)
Net assets at beginning of year	<u>4,867,399</u>	<u>5,158,483</u>	<u>(4,227)</u>	<u>2,482</u>	<u>4,863,172</u>	<u>5,160,965</u>
Net assets at end of year	<u>\$ 4,586,054</u>	<u>\$ 4,867,399</u>	<u>\$ 2,975</u>	<u>\$ (4,227)</u>	<u>\$ 4,589,029</u>	<u>\$ 4,863,172</u>

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

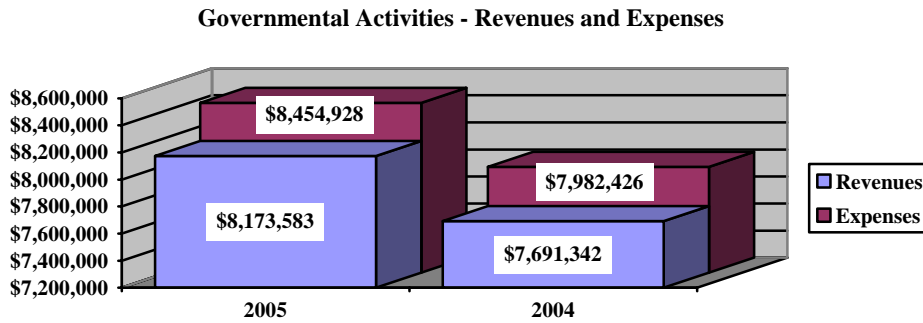
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Governmental Activities

Net assets of the District's governmental activities decreased \$281,345. Total governmental expenses of \$8,454,928 were offset by program revenues of \$779,946 and general revenues of \$7,393,637. Program revenues supported 9.22% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 98.41% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

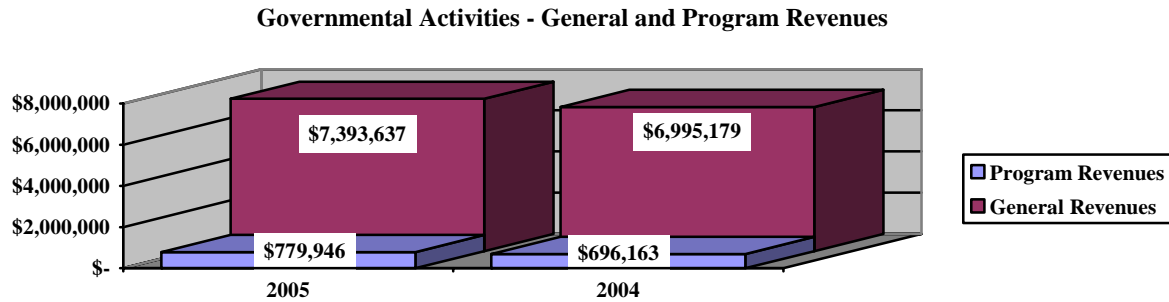
**FAIRBANKS LOCAL SCHOOL DISTRICT
UNION COUNTY, OHIO**

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

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses:				
Instruction:				
Regular	\$ 3,696,158	\$ 3,598,200	\$ 3,762,535	\$ 3,686,226
Special	592,963	541,559	552,353	509,226
Vocational	1,352	3	5,356	1,864
Support services:				
Pupil	477,703	383,727	341,897	271,478
Instructional staff	394,827	313,928	379,105	314,842
Board of Education	48,457	48,457	37,898	37,898
Administration	807,740	802,740	792,788	792,788
Fiscal	299,758	299,758	275,924	270,924
Operations and maintenance	788,379	788,379	691,338	691,338
Pupil transportation	691,297	643,431	573,798	540,827
Central	2,324	(3,676)	6,000	-
Food service	185,611	30,541	159,203	(6,289)
Operation of non-instructional services	205,605	42,710	165,245	(7,617)
Extracurricular activities	248,665	171,136	223,917	167,689
Interest and fiscal charges	14,089	14,089	15,069	15,069
Total expenses	\$ 8,454,928	\$ 7,674,982	\$ 7,982,426	\$ 7,286,263

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 96.49% of 2005 instruction activities are supported through taxes and other general revenues. General revenue support for all governmental activities was 90.78% in 2005. The District's taxpayers as a whole are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



Business-Type Activities

Business-type activities include the F.E.E.D. Program operation. This program had operating revenues of \$64,829 and operating expenses of \$57,627 for fiscal year 2005. The District's business activities receive no support from tax revenues.

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

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

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$1,109,217, which is below last year's restated balance of \$1,469,861. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	(Decrease)
General	\$ 1,048,437	\$ 1,363,573	\$ (315,136)
Other Governmental	<u>60,780</u>	<u>106,288</u>	<u>(45,508)</u>
Total	<u>\$ 1,109,217</u>	<u>\$ 1,469,861</u>	<u>\$ (360,644)</u>

General Fund

The District's general fund balance decreased \$315,136, due to expenditures increasing faster than revenues during 2005. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,882,221	\$ 4,663,246	4.70 %
Tuition	18,352	12,665	44.90 %
Interest earnings	47,432	26,182	81.16 %
Intergovernmental	2,377,749	2,202,319	7.97 %
Other revenues	<u>85,831</u>	<u>62,871</u>	36.52 %
Total	<u>\$ 7,411,585</u>	<u>\$ 6,967,283</u>	6.38 %
<u>Expenditures</u>			
Instruction	\$ 4,087,738	\$ 4,064,063	0.58 %
Support services	3,419,599	2,956,583	15.66 %
Extracurricular activities	172,136	150,867	14.09 %
Debt service	<u>-</u>	<u>2,019</u>	100.00 %
Total	<u>\$ 7,679,473</u>	<u>\$ 7,173,532</u>	7.05 %

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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For the general fund, final budgeted revenues and other financing sources were \$7,491,996, above original budgeted revenues estimates of \$6,653,684. Actual revenues and other financing sources for fiscal 2005 was \$7,708,779.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,801,747 were increased to \$7,950,973 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$7,749,038, which is \$201,935 lower than the final appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$4,032,021 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This total amount was reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 892,222	\$ 892,222
Land improvements	99,837	95,208
Buildings and improvements	2,047,950	2,028,818
Furniture and equipment	566,625	625,681
Vehicles	425,387	378,607
Total	\$ 4,032,021	\$ 4,020,536

The overall increase in capital assets of \$11,485 is due to capital outlays of \$325,764 exceeding depreciation expense of \$314,279 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005 the District had \$280,000 in general obligation notes outstanding. Of this total, \$23,000 is due within one year and \$257,000 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2004	Governmental Activities 2004
General obligation notes	\$ 280,000	\$ 304,476
Total	\$ 280,000	\$ 304,476

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

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

At June 30, 2005 the District's overall legal debt margin was \$14,747,747 with an unvoted debt margin of \$163,864.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

An emergency operating levy of 9.5 mills (4.5 mill renewal with an increase of 4.9) was passed in November 2004, providing much needed revenue stability and growth for the Fairbanks Local School District. This levy is for five years with an expiration of December 2009. The district is also beginning to benefit somewhat from an improved economy with short term interest rates currently on the rise, and a current stabilization of health insurance premiums.

HB 66 made changes to the school funding formula, and will eliminate over time the tangible personal property tax school districts receive in Ohio. This elimination will take place over the next five years. The state will hold districts harmless for this five-year period. Tangible personal property tax provides approximately 10% of district revenues. No potential growth from this revenue source will be realized because of this change. In addition, the hold harmless payments will start being phased out in 2011. A negative impact to revenues will also be a change to the school funding formula. The cost-of-doing business factor will be phased out in the next biennium. This phasing out will probably eliminate any potential growth in state funding for the next two years.

In summary, the district will benefit greatly the next two years from the levy passage in November 2004. However, the longer term picture looks bleak as the State of Ohio has done nothing to relieve the reliance on local property taxes, as well as negatively modifying the school funding formula for the Fairbanks Local School District

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, 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 receives. If you have questions about this report or need additional financial information contact Mr. Aaron S. Johnson, Treasurer, Fairbanks Local School District, 1158 State Route 38, Milford Center, Ohio 43045.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,680,743	\$ 6,896	\$ 1,687,639
Receivables:			
Taxes	4,408,697	-	4,408,697
Accounts	835	-	835
Intergovernmental	35,502	-	35,502
Materials and supplies inventory	1,633	-	1,633
Capital assets:			
Land	892,222	-	892,222
Depreciable capital assets, net	3,139,799	-	3,139,799
Capital assets, net.	<u>4,032,021</u>	<u>-</u>	<u>4,032,021</u>
 Total assets.	 <u>10,159,431</u>	 <u>6,896</u>	 <u>10,166,327</u>
Liabilities:			
Accounts payable.	69,452	-	69,452
Accrued wages and benefits	645,149	-	645,149
Pension obligation payable.	183,172	3,544	186,716
Intergovernmental payable	56,658	377	57,035
Deferred revenue	3,985,347	-	3,985,347
Long-term liabilities:			
Due within one year.	85,364	-	85,364
Due in more than one year	548,235	-	548,235
 Total liabilities	 <u>5,573,377</u>	 <u>3,921</u>	 <u>5,577,298</u>
Net Assets:			
Invested in capital assets, net of related debt.	3,752,021	-	3,752,021
Restricted for:			
Capital projects	545	-	545
State funded programs	20,538	-	20,538
Federally funded programs	28,959	-	28,959
Student activities	5,821	-	5,821
Set-asides.	87,102	-	87,102
Unrestricted	<u>691,068</u>	<u>2,975</u>	<u>694,043</u>
 Total net assets	 <u>\$ 4,586,054</u>	 <u>\$ 2,975</u>	 <u>\$ 4,589,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 3,696,158	\$ 54,180	\$ 36,533	\$ 7,245
Special	592,963	-	51,404	-
Vocational	1,352	-	1,349	-
Support services:				
Pupil.	477,703	-	93,976	-
Instructional staff	394,827	-	80,899	-
Board of education	48,457	-	-	-
Administration.	807,740	-	5,000	-
Fiscal.	299,758	-	-	-
Operations and maintenance	788,379	-	-	-
Pupil transportation.	691,297	47,667	199	-
Central	2,324	-	6,000	-
Operation of non-instructional	205,605	-	162,895	-
Extracurricular activities.	248,665	77,529	-	-
Food service operations.	185,611	120,783	34,287	-
Interest and fiscal charges	14,089	-	-	-
Total governmental activities	8,454,928	300,159	472,542	7,245
Business-type activities:				
F.E.E.D. Program	57,627	64,829	-	-
Total business-type activities	57,627	64,829	-	-
Totals	\$ 8,512,555	\$ 364,988	\$ 472,542	\$ 7,245

General Revenues:

Property taxes levied for:

General purposes
School district income tax
Grants and entitlements not restricted
to specific programs.
Investment earnings
Miscellaneous
Total general revenues.

Change in net assets

Net assets (deficit) at beginning of year . .

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,598,200)	\$ -	\$ (3,598,200)
(541,559)	-	(541,559)
(3)	-	(3)
(383,727)	-	(383,727)
(313,928)	-	(313,928)
(48,457)	-	(48,457)
(802,740)	-	(802,740)
(299,758)	-	(299,758)
(788,379)	-	(788,379)
(643,431)	-	(643,431)
3,676	-	3,676
(42,710)	-	(42,710)
(171,136)	-	(171,136)
(30,541)	-	(30,541)
(14,089)	-	(14,089)
<u>(7,674,982)</u>	<u>-</u>	<u>(7,674,982)</u>
-	7,202	7,202
-	7,202	7,202
<u>(7,674,982)</u>	<u>7,202</u>	<u>(7,667,780)</u>
3,943,645	-	3,943,645
942,003	-	942,003
2,377,749	-	2,377,749
47,432	-	47,432
82,808	-	82,808
<u>7,393,637</u>	<u>-</u>	<u>7,393,637</u>
(281,345)	7,202	(274,143)
<u>4,867,399</u>	<u>(4,227)</u>	<u>4,863,172</u>
<u>\$ 4,586,054</u>	<u>\$ 2,975</u>	<u>\$ 4,589,029</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,472,252	\$ 121,389	\$ 1,593,641
Receivables:			
Taxes	4,408,697	-	4,408,697
Accounts	835	-	835
Intergovernmental	-	35,502	35,502
Interfund receivable	24,250	-	24,250
Materials and supplies inventory	-	1,633	1,633
Restricted assets:			
Equity in pooled cash and cash equivalents	87,102	-	87,102
Total assets	<u>\$ 5,993,136</u>	<u>\$ 158,524</u>	<u>\$ 6,151,660</u>
Liabilities:			
Accounts payable	\$ 43,919	\$ 25,533	\$ 69,452
Accrued wages and benefits	626,576	18,573	645,149
Compensated absences payable	12,411	-	12,411
Pension obligation payable.	172,688	10,484	183,172
Intergovernmental payable.	53,992	2,666	56,658
Interfund payable.	-	24,250	24,250
Deferred revenue.	4,035,113	16,238	4,051,351
Total liabilities	<u>4,944,699</u>	<u>97,744</u>	<u>5,042,443</u>
Fund Balances:			
Reserved for encumbrances	65,509	30,083	95,592
Reserved for materials and supplies inventory.	-	1,633	1,633
Reserved for property tax unavailable for appropriation	373,584	-	373,584
Reserved for BWC refunds.	87,102	-	87,102
Unreserved, undesignated, reported in:			
General fund	522,242	-	522,242
Special revenue funds.	-	28,519	28,519
Capital projects funds.	-	545	545
Total fund balances	<u>1,048,437</u>	<u>60,780</u>	<u>1,109,217</u>
Total liabilities and fund balances	<u>\$ 5,993,136</u>	<u>\$ 158,524</u>	<u>\$ 6,151,660</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 1,109,217
<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.		4,032,021
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 49,766	
Intergovernmental revenue	16,238	
Total		66,004
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	341,188	
General obligation bonds payable	280,000	
Total		(621,188)
Net assets of governmental activities		\$ 4,586,054

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,882,221	\$ -	\$ 4,882,221
Tuition.	18,352	-	18,352
Transportation fees	47,667	-	47,667
Charges for services.	-	120,783	120,783
Earnings on investments.	47,432	-	47,432
Extracurricular.	-	61,055	61,055
Classroom materials and fees.	-	35,828	35,828
Other local revenues.	38,164	61,118	99,282
Other revenue	-	5,000	5,000
Intergovernmental - state.	2,377,749	200,523	2,578,272
Intergovernmental - federal	-	266,809	266,809
Total revenues	<u>7,411,585</u>	<u>751,116</u>	<u>8,162,701</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,542,315	78,828	3,621,143
Special.	545,423	51,012	596,435
Vocational.	-	949	949
Support services:			
Pupil.	354,686	121,381	476,067
Instructional staff	298,437	86,852	385,289
Board of education	46,944	-	46,944
Administration.	782,428	16,509	798,937
Fiscal	296,892	-	296,892
Operations and maintenance.	896,636	-	896,636
Pupil transportation	743,576	140	743,716
Central.	-	2,324	2,324
Operation of non-instructional services	-	205,443	205,443
Extracurricular activities	172,136	85,560	257,696
Food service operations.	-	160,786	160,786
Debt service:			
Principal retirement	-	24,476	24,476
Interest and fiscal charges	-	14,089	14,089
Total expenditures	<u>7,679,473</u>	<u>848,349</u>	<u>8,527,822</u>
Excess of revenues under expenditures	<u>(267,888)</u>	<u>(97,233)</u>	<u>(365,121)</u>
Other financing sources (uses):			
Sale of capital assets.	4,477	-	4,477
Transfers in	-	51,725	51,725
Transfers (out).	(51,725)	-	(51,725)
Total other financing sources (uses)	<u>(47,248)</u>	<u>51,725</u>	<u>4,477</u>
Net change in fund balances	(315,136)	(45,508)	(360,644)
Fund balances			
at beginning of year (restated).	1,363,573	106,288	1,469,861
Fund balances at end of year.	<u>\$ 1,048,437</u>	<u>\$ 60,780</u>	<u>\$ 1,109,217</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2005

Net change in fund balances - total governmental funds	\$	(360,644)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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. Capital outlay exceeds depreciation expense in the current period accordingly.		
Capital asset additions	\$ 325,764	
Current year depreciation	<u>(314,279)</u>	11,485
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	3,427	
Intergovernmental	<u>7,455</u>	10,882
 Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		24,476
 Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>32,456</u>
 Change in net assets of governmental activities	 \$	 <u><u>(281,345)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,541,037	\$ 5,113,172	\$ 5,119,183	\$ 6,011
Tuition.	11,223	12,637	18,352	5,715
Earnings on investments.	24,867	28,000	35,638	7,638
Transportation fees	41,960	47,247	47,247	-
Other local revenues	26,643	30,000	37,749	7,749
Intergovernmental - state	1,966,649	2,214,431	2,389,976	175,545
Total revenues	<u>6,612,379</u>	<u>7,445,487</u>	<u>7,648,145</u>	<u>202,658</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,543,338	3,611,112	3,519,399	91,713
Special.	543,180	553,569	539,510	14,059
Support services:				
Pupil.	354,191	360,966	351,798	9,168
Instructional staff	315,957	322,000	313,822	8,178
Board of education	49,816	50,769	49,480	1,289
Administration.	756,314	770,780	751,204	19,576
Fiscal	294,307	299,937	292,319	7,618
Operations and maintenance.	887,241	904,212	881,247	22,965
Pupil transportation	766,428	781,088	761,250	19,838
Extracurricular activities.	172,165	175,458	171,002	4,456
Total expenditures	<u>7,682,937</u>	<u>7,829,891</u>	<u>7,631,031</u>	<u>198,860</u>
Excess of revenues over (under) expenditures.	<u>(1,070,558)</u>	<u>(384,404)</u>	<u>17,114</u>	<u>401,518</u>
Other financing sources (uses):				
Refund of prior year expenditure.	-	-	829	829
Transfers in.	37,329	42,032	42,032	-
Transfers (out)	(94,395)	(96,200)	(93,757)	2,443
Advances in.	-	-	13,296	13,296
Advances (out)	(24,415)	(24,882)	(24,250)	632
Proceeds from sale of capital assets.	3,976	4,477	4,477	-
Total other financing sources (uses)	<u>(77,505)</u>	<u>(74,573)</u>	<u>(57,373)</u>	<u>17,200</u>
Net change in fund balance	(1,148,063)	(458,977)	(40,259)	418,718
Fund balance at beginning of year.	1,428,752	1,428,752	1,428,752	-
Prior year encumbrances appropriated	81,187	81,187	81,187	-
Fund balance at end of year	<u>\$ 361,876</u>	<u>\$ 1,050,962</u>	<u>\$ 1,469,680</u>	<u>\$ 418,718</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>Non-Major Enterprise Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 6,896
Total assets	<u>6,896</u>
Liabilities:	
Current liabilities:	
Pension obligation payable.	3,544
Intergovernmental payable	<u>377</u>
Total liabilities	<u>3,921</u>
Net assets:	
Unrestricted	<u>2,975</u>
Total net assets.	<u><u>\$ 2,975</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Non-Major Enterprise Fund
Operating revenues:	
Tuition and fees	\$ 64,829
Total operating revenues	64,829
Operating expenses:	
Personal services	55,388
Materials and supplies	1,588
Other	651
Total operating expenses	57,627
Change in net assets.	7,202
Net assets (deficit) at beginning of year	(4,227)
Net assets at end of year	\$ 2,975

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Non-Major Enterprise Fund
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 64,829
Cash payments for personal services	(57,142)
Cash payments for purchased services	(25)
Cash payments for materials and supplies	(4,309)
Cash payments for other expenses	(651)
Net cash provided by operating activities	2,702
Net increase in cash and cash equivalents	2,702
Cash and cash equivalents at beginning of year . . .	4,194
Cash and cash equivalents at end of year	\$ 6,896
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,202
Changes in liabilities:	
Increase in intergovernmental payable	267
Decrease in accrued wages and benefits	(2,295)
Decrease in pension obligation payable	(2,472)
Net cash provided by operating activities	\$ 2,702

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 65,069	\$ 37,267
Total assets.	<u>65,069</u>	<u>\$ 37,267</u>
Liabilities:		
Accounts payable.	\$ 363	\$ 7,299
Due to students	<u>-</u>	<u>29,968</u>
Total liabilities	<u>363</u>	<u>\$ 37,267</u>
Net Assets:		
Held in trust for scholarships	<u>64,706</u>	
Total net assets	<u>\$ 64,706</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
Additions:	
Interest	\$ 492
Total additions.	492
Deductions:	
Scholarships awarded	1,815
Change in net assets	(1,323)
Net assets at beginning of year	66,029
Net assets at end of year.	\$ 64,706

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Fairbanks Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District ranks 502nd largest by enrollment among the 614 public school districts in the state. The District employs 65 certified employees and 49 non-certificated employees to provide services to approximately 960 students. The District cooperates with the Delaware-Union County Educational Service Center, a separate entity, for curricular services.

The District provides regular and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 and business-type activity and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise fund, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, and student related activities of the District.

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

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

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

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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) 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 debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (MEC)

The 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 computers services to the District.

Central Ohio Joint Vocational School District (COJVS)

The COJVS is a jointly governed organization of the District. The District's Board of Education appoints one member to the seven member Board of Education of COJVS. However, the financial statements of the COJVS are not included within the District's reporting entity as the District can not impose its will and there is no financial benefit, financial burden relationship or related party transactions between the District and COJVS.

INSURANCE PURCHASING POOLS

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "GRP") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool. Refer to Note 10.B. for more detail.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

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

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

GOVERNMENTAL FUNDS

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. The following is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; (c) for grants and other resources whose use is restricted to a particular purpose; and (d) for food service and uniform school supplies operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's only proprietary fund:

Non-Major Enterprise Fund - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has one enterprise fund to account for the Fairbanks Elementary Extended Day Program (F.E.E.D. Program). This enterprise fund is considered a nonmajor enterprise fund.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: 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. The private-purpose trust fund accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund accounts for student activities.

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

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

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

C. Basis of Presentation and Measurement Focus

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. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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. 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 - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds 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 fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus it does not report operations.

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

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

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

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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. 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 an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 fiscal year-end: property taxes available as an advance, interest, tuition and grants.

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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 fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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 governmental funds.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15, the Superintendent and Treasury submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the County Budget Commission for tax rate determination. The Union County Auditors office waived this requirement for fiscal 2005.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations included were legally enacted by the Board during fiscal 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements may not legally exceed budgeted appropriations at the fund level.

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

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

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

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to non-negotiable certificates of deposits, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2005 amounted to \$47,432 which includes \$5,877 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

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

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

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

G. Inventory

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

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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. The District maintains a capitalization threshold of \$500. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except land 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>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture/equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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

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

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The District has also recorded a liability for all employees with at least 20 years of service.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, compensated absences and future retirement obligations 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 during the current year.

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

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property taxes unavailable for appropriation and Bureau of Workers Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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. Parochial Schools

Within the District boundaries, St. John Lutheran School and St. Paul Lutheran School operate as private schools. Current state legislation provides funding to the parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the District.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets 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 include the amount required by state statute to be set aside to create a reserve for BWC refunds. See Note 15 for details.

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

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

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for the F.E.E.D. Program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. 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. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,418,126	\$ 112,490	1,530,616
GASB Technical Bulletin No. 2004-2	<u>(54,553)</u>	<u>(6,202)</u>	<u>(60,755)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 1,363,573</u>	<u>\$ 106,288</u>	<u>\$ 1,469,861</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service Fund	\$ 6,677
Management Information Systems	87
Entry Year Programs	4
Student Intervention	2,076
IDEA, Part B, Special Education	11,190
Title I, Disadvantaged Children	139
Title V - Innovative Education Programs	28
Improving Teacher Quality	1,707

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - 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 of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of 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 to 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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$2,245 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$447,810. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$261,965 of the District's bank balance of \$460,991 was covered by Federal Deposit Insurance Corporation, while \$199,026 adhered to custodial risk.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. 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.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 1,339,920	\$ 1,339,920
Total	<u>\$ 1,339,920</u>	<u>\$ 1,339,920</u>

Interest Rate Risk: 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.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>1,339,920</u>	<u>100.00%</u>
	\$ <u>1,339,920</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 447,810
Investments	1,339,920
Cash on hand	<u>2,245</u>
Total	<u>\$ 1,789,975</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,680,743
Business-type activities	6,896
Private-purpose trust funds	65,069
Agency funds	<u>37,267</u>
Total	<u>\$ 1,789,975</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 24,250

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

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

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 51,725

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - PROPERTY TAXES

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

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

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

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

The District receives property taxes from Union 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$373,584 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$288,936 in the general fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
	Agricultural/Residential and Other Real Estate	\$ 122,601,730	85.78	\$ 142,463,740
Public Utility Personal	5,657,740	3.96	6,420,940	3.92
Tangible Personal Property	14,670,450	10.26	14,979,170	9.14
Total	\$ 142,929,920	100.00	\$ 163,863,850	100.00
 Tax rate per \$1,000 of assessed valuation	 \$36.80		 \$36.80	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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 items of receivables reported on the statement of net assets follows:

Governmental Activities	
Taxes	\$ 4,408,697
Accounts	835
Intergovernmental	35,502
 Total receivables	 \$ 4,445,034

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

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

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows:

Governmental Activities	Balance June 30, 2004	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 892,222	\$ -	\$ -	\$ 892,222
Total capital assets, not being depreciated	<u>892,222</u>	<u>-</u>	<u>-</u>	<u>892,222</u>
Capital assets, being depreciated:				
Land improvements	142,237	29,550	-	171,787
Building/improvements	4,269,021	115,903	-	4,384,924
Furniture/equipment	2,108,643	69,282	-	2,177,925
Vehicles	<u>914,532</u>	<u>111,029</u>	<u>(61,195)</u>	<u>964,366</u>
Total capital assets, being depreciated	<u>7,434,433</u>	<u>325,764</u>	<u>(61,195)</u>	<u>7,699,002</u>
Less: accumulated depreciation				
Land improvements	(47,029)	(24,921)	-	(71,950)
Building/improvements	(2,240,203)	(96,771)	-	(2,336,974)
Furniture/equipment	(1,482,962)	(128,338)	-	(1,611,300)
Vehicles	<u>(535,925)</u>	<u>(64,249)</u>	<u>61,195</u>	<u>(538,979)</u>
Total accumulated depreciation	<u>(4,306,119)</u>	<u>(314,279)</u>	<u>61,195</u>	<u>(4,559,203)</u>
Governmental activities capital assets, net	<u>\$ 4,020,536</u>	<u>\$ 11,485</u>	<u>\$ -</u>	<u>\$ 4,032,021</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 147,209
Special	469
Vocational	403
Support Services:	
Pupil	897
Instructional staff	12,472
Board of education	1,513
Administration	8,220
Fiscal	2,133
Operations and maintenance	49,414
Pupil transportation	61,768
Food service operations	18,866
Extracurricular	<u>10,915</u>
Total depreciation expense	<u>\$ 314,279</u>

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

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

NOTE 9 - LONG-TERM OBLIGATIONS

- A. The District has issued energy conservation notes and an asbestos loan to provide for energy improvements to various District buildings. The primary source of repayment of these obligations is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

The following is a description of the District's asbestos note and energy conservation notes outstanding as of June 30, 2005:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding 6/30/04</u>	<u>Issued in 2005</u>	<u>Retired in 2005</u>	<u>Outstanding 6/30/05</u>
Asbestos note	0.00%	3/16/87	12/31/04	\$ 3,476	\$ -	\$ (3,476)	\$ -
Energy conservation note	4.80%	6/1/99	12/01/13	<u>301,000</u>	<u>-</u>	<u>(21,000)</u>	<u>280,000</u>
Total				<u>\$ 304,476</u>	<u>\$ -</u>	<u>\$ (24,476)</u>	<u>\$ 280,000</u>

- B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation notes:

<u>Fiscal Year Ending</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2006	\$ 23,000	\$ 13,022	\$ 36,022
2007	26,000	11,834	37,834
2008	28,000	10,525	38,525
2009	29,000	9,143	38,143
2010	30,000	7,712	37,712
2011 - 2014	<u>144,000</u>	<u>14,454</u>	<u>158,454</u>
Total	<u>\$ 280,000</u>	<u>\$ 66,690</u>	<u>\$ 346,690</u>

- C. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 394,732	\$ 4,803	\$ (45,936)	\$ 353,599	\$ 62,364
General obligation notes payable	<u>304,476</u>	<u>-</u>	<u>(24,476)</u>	<u>280,000</u>	<u>23,000</u>
Total governmental activities long-term liabilities	<u>\$ 699,208</u>	<u>\$ 4,803</u>	<u>\$ (70,412)</u>	<u>\$ 633,599</u>	<u>\$ 85,364</u>

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

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$14,747,747 and an unvoted debt margin of \$163,864.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Employee benefits liability is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$16,208,215. Property insurance also includes \$300,000 additional expense coverage.

Settled claims have not exceeded commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

B. Worker's Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio Association of School Business Officials (OASBO). The Executive Director of the OSABO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

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

NOTE 10 - RISK MANAGEMENT - (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. 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 GRP. The District was placed in Group II for the 2005 OASBO program. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Insurance

The District has established limited risk health, dental and life insurance programs for its employees. The District is a member of the Champaign, Delaware, Marion and Union County Insurance Consortium.

CORE Source, a third party administrator, services all claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$150,000 and aggregate claims in excess of \$4,292,738.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$119,394, \$95,848, and \$53,889, respectively; 45.32% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$65,286 represents the unpaid contribution for fiscal year 2005.

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

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$461,404, \$447,785, and \$463,992, respectively, 83.20% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$77,499 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$22,779 made by the District and \$15,000 made by plan members.

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

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. 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 Systems/State Teachers Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

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 the 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$35,493 during fiscal 2005.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$55,527 during the 2005 fiscal year.

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

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (40,259)
Net adjustment for revenue accruals	(236,560)
Net adjustment for expenditure accruals	(138,116)
Net adjustment for other sources/uses	10,125
Adjustment for encumbrances	<u>89,674</u>
GAAP basis	<u>\$ (315,136)</u>

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

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

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

NOTE 14 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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

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

NOTE 15 - STATUTORY RESERVES

The District is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for BWC refunds. At June 30, 2005, only the unspent portions of certain workers' compensation refunds continue to be a set-aside for BWC refunds.

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

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	BWC <u>Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ (333,360)	\$ -	\$ 87,102
Current year set-aside requirement	130,175	130,175	-
Qualifying disbursements	<u>(169,552)</u>	<u>(156,167)</u>	<u>-</u>
Total	<u>\$ (372,737)</u>	<u>\$ (25,992)</u>	<u>\$ 87,102</u>
Carry forward balance to 2006	<u>\$ (372,737)</u>	<u>\$ -</u>	<u>\$ 87,102</u>

The District had qualifying disbursements during the fiscal year that reduced the textbooks set-aside amount below zero. This amount may be used to reduce the set-aside requirement of future years. Although the District had qualifying disbursements during the year that reduced the capital improvements set-aside amount below zero, these extra amounts may not be used to reduce the set-aside requirement in future fiscal years.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for BWC refunds	<u>\$ 87,102</u>
Total restricted assets	<u>\$ 87,102</u>



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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
Fairbanks Local School District
11158 State Route 38
Milford Center, OH 43045-9764

We have audited the financial statements of the governmental activities, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Fairbanks Local School District's basic financial statements and have issued our report thereon dated December 20, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. 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 Fairbanks Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of Fairbanks Local School District in a separate letter dated December 20, 2005.

Board of Education
Fairbanks Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairbanks Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board and management of the Fairbanks Local School District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 20, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

FAIRBANKS LOCAL SCHOOL DISTRICT

UNION 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
MARCH 02, 2006**