



Mary Taylor, CPA
Auditor of State

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fairland Local School District
Lawrence County
228 Private Drive 10010
Proctorville, Ohio 45669

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairland Local School District, Lawrence County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

January 26, 2007

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Fairland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$1,204,050. Current and other assets decreased by \$13,593 and capital assets decreased by \$1,360,119. This is largely due to the depreciation of capital assets.
- General revenues accounted for \$11,665,978 or 77% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants, contributions and interest, and capital grants and contributions accounted for \$3,412,351 or 23% of total revenues of \$15,078,329. The School District had \$16,282,379 in expenses related to governmental activities.
- The School District has two major funds; the General Fund and the Bond Retirement Fund. The General Fund had \$12,247,500 in revenues and \$12,089,885 in expenditures. The General Fund's balance increased \$144,648. The Bond Retirement Fund had \$365,667 in revenues and \$375,346 in expenditures. The Bond Retirement Debt Service Fund's balance decreased \$9,679.

Using this Annual Financial Report

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 Fairland Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 as the School District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds Most of the School 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 fiscal 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 School District's general governmental 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.

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$9,877,941	\$9,891,534
Capital Assets	36,900,467	38,260,586
Total Assets	46,778,408	48,152,120
Liabilities		
Long-term Liabilities	3,946,516	4,111,265
Other Liabilities	4,352,406	4,357,319
Total Liabilities	8,298,922	8,468,584
Net Assets		
Invested in Capital Assets, Net of Debt	33,704,177	34,857,380
Restricted	1,581,341	1,580,347
Unrestricted	3,193,968	3,245,809
Total Net Assets	\$38,479,486	\$39,683,536

Total assets decreased \$1,373,712 due to a decrease in capital assets due to depreciation expense. Total liabilities decreased \$169,662 due largely to a decrease in long-term debt.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 compared to 2005. Program revenue increased \$10,555. General revenue increased \$308,838 due largely to increases in Property Taxes and Investment Earnings.

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program Revenues		
Charges for Services and Sales	\$1,040,548	\$1,071,037
Operating Grants, Contributions and Interest	2,362,177	2,314,443
Capital Grants and Contributions	9,626	16,316
Total Program Revenues	<u>3,412,351</u>	<u>3,401,796</u>
General Revenues		
Property Taxes	3,060,233	2,938,983
Grants and Entitlements	8,363,937	8,320,623
Gifts and Donations	13,522	15,305
Investment Earnings	199,207	67,832
Miscellaneous	29,079	14,397
Total General Revenues	<u>11,665,978</u>	<u>11,357,140</u>
Total Revenues	<u>15,078,329</u>	<u>14,758,936</u>
Program Expenses		
Instruction		
Regular	8,129,169	7,432,533
Special	1,542,714	1,441,368
Vocational	52,604	50,835
Other	5,836	9,350
Support Services:		
Pupil	477,633	484,493
Instructional Staff	790,883	721,188
Board of Education	118,792	18,823
Administration	1,056,835	995,972
Fiscal	353,944	317,501
Business	19,997	36,463
Operation and Maintenance of Plant	1,920,771	1,837,606
Pupil Transportation	683,966	546,843
Central	17,447	17,447
Operation of Non-Instructional Services:		
Food Service Operations	643,210	573,171
Extracurricular Activities	299,190	294,868
Interest and Fiscal Charges	169,388	181,406
Total Expenses	<u>16,282,379</u>	<u>14,959,867</u>
Increase in Net Assets	<u>(\$1,204,050)</u>	<u>(\$200,931)</u>

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Statement of Activities shows the cost of program services and the charges for services and sales, operating grants, contributions, and interest earnings and capital grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program Expenses				
Instruction:				
Regular	\$8,129,169	\$6,778,740	\$7,432,533	\$6,017,999
Special	1,542,714	557,913	1,441,368	560,780
Vocational	52,604	52,604	50,835	50,835
Other	5,836	5,836	9,350	9,350
Support Services:				
Pupil	477,633	404,625	484,493	400,363
Instructional Staff	790,883	569,308	721,188	446,211
Board of Education	118,792	118,792	18,823	18,823
Administration	1,056,835	1,056,835	995,972	995,972
Fiscal	353,944	353,944	317,501	317,501
Business	19,997	2,496	36,463	1,338
Operation and Maintenance of Plant	1,920,771	1,904,956	1,837,606	1,812,007
Pupil Transportation	683,966	637,241	546,843	497,314
Central	17,447	17,447	17,447	17,447
Operation of Non-Instructional Services:				
Food Service Operations	643,210	35,597	573,171	23,985
Extracurricular Activities	299,190	204,306	294,868	206,740
Interest and Fiscal Charges	169,388	169,388	181,406	181,406
Total	<u>\$16,282,379</u>	<u>\$12,870,028</u>	<u>\$14,959,867</u>	<u>\$11,558,071</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 76% of instruction activities are supported through taxes and other general revenues.

The School District Funds

The School District's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,193,184 and expenditures of \$15,086,128.

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

The School 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 year 2006 the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$354,037 under original estimates of \$12,496,703 and budget basis expenditures were \$321,430 above original estimates of \$11,838,284. The revenue variance is due to lower than anticipated state foundation payments. The expenditure variance is due to higher than anticipated expenditures regular instructional services, support services, and pupil transportation.

The School District's ending unobligated General Fund balance was \$4,943,814.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$36,900,467 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land and Land Improvements	\$198,591	\$198,591
Buildings and Improvements	34,761,482	35,964,975
Furniture and Equipment	1,706,620	1,797,236
Vehicles	233,774	299,784
Totals	\$36,900,467	\$38,260,586

See note 9 for more information on capital assets.

Fairland Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Debt

At June 30, 2006, the School District had the following debt outstanding:

Table 5
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$3,195,000	\$3,325,000
Energy Conservation Bonds	0	75,000
	<u>\$3,195,000</u>	<u>\$3,400,000</u>

See Note 14 for information on Debt.

Economic Factors

The Fairland Local School District depends on the State School Foundation Program and must maintain its prudent spending habits.

Contacting the School 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 School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tresa Baker, Fairland Local School District Treasurer, Route 4, Box 201, Proctorville, Ohio 45669.

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Fairland Local School District, Ohio

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 6,715,742
Materials and Supplies Inventory	40,094
Intergovernmental Receivable	56,617
Prepaid Items	170,747
Property and Other Local Taxes Receivable	2,894,741
Noncurrent Assets:	
Non-Depreciable Capital Assets	198,591
Depreciable Capital Assets, net	<u>36,701,876</u>
<i>Total Assets</i>	<u><u>46,778,408</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	79,895
Accrued Wages and Benefits	1,433,944
Intergovernmental Payable	384,514
Accrued Interest Payable	15,842
Accrued Vacation Leave Payable	67,536
Matured Compensated Absences Payable	38,408
Deferred Revenue	2,332,267
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	149,184
Due in More Than One Year	<u>3,797,332</u>
<i>Total Liabilities</i>	<u><u>8,298,922</u></u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	33,704,177
Restricted for Debt Service	853,412
Restricted for Capital Outlay	204,410
Restricted for Other Purposes	480,059
Restricted for Set Asides	43,460
Unrestricted	<u>3,193,968</u>
<i>Total Net Assets</i>	<u><u>\$ 38,479,486</u></u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net(Expense)</u>
		<u>Charges for</u> <u>Services and</u> <u>Sales</u>	<u>Operating</u> <u>Grants,</u> <u>Contributions</u> <u>and Interest</u>	<u>Capital Grants</u> <u>and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
					<u>Governmental</u> <u>Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 8,129,169	\$ 683,505	\$ 666,924		\$ (6,778,740)
Special	1,542,714	30,677	954,124		(557,913)
Vocational	52,604				(52,604)
Other	5,836				(5,836)
Support Services:					
Pupils	477,633		73,008		(404,625)
Instructional Staff	790,883		221,575		(569,308)
Board of Education	118,792				(118,792)
Administration	1,056,835				(1,056,835)
Fiscal	353,944				(353,944)
Business	19,997	17,501			(2,496)
Operation and Maintenance of Plant	1,920,771		15,815		(1,904,956)
Pupil Transportation	683,966		37,099	\$9,626	(637,241)
Central	17,447				(17,447)
Operation of Non-Instructional Services:					
Food Service Operations	643,210	213,981	393,632		(35,597)
Extracurricular Activities	299,190	94,884			(204,306)
Interest and Fiscal Charges	169,388				(169,388)
Totals	\$16,282,379	\$1,040,548	\$2,362,177	\$9,626	(12,870,028)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					2,684,360
Property Taxes, Levied for Debt Service					319,430
Property Taxes, Levied for					56,443
Grants and Entitlements not Restricted to Specific Programs					8,363,937
Gifts and Donations					13,522
Investment Earnings					199,207
Miscellaneous					29,079
<i>Total General Revenues and Transfers</i>					<u>11,665,978</u>
<i>Change in Net Assets</i>					(1,204,050)
<i>Net Assets Beginning of Year</i>					<u>39,683,536</u>
<i>Net Assets End of Year</i>					<u>\$ 38,479,486</u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 5,046,551	\$ 809,230	\$ 816,501	\$ 6,672,282
Materials and Supplies Inventory	14,036		26,058	40,094
Intergovernmental Receivable			56,617	56,617
Prepaid Items	144,652		26,095	170,747
Property and Other Local Taxes Receivable	2,539,350	302,190	53,201	2,894,741
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	43,460			43,460
Total Assets	<u>\$ 7,788,049</u>	<u>\$ 1,111,420</u>	<u>\$ 978,472</u>	<u>\$ 9,877,941</u>
LIABILITIES:				
Accounts Payable	\$ 61,577		\$ 18,318	\$ 79,895
Accrued Wages and Benefits	1,190,531		243,413	1,433,944
Intergovernmental Payable	312,114		72,400	384,514
Matured Compensated Absences Payable	38,408			38,408
Deferred Revenue	2,340,666	\$ 278,547	59,605	2,678,818
Total Liabilities	<u>3,943,296</u>	<u>278,547</u>	<u>393,736</u>	<u>4,615,579</u>
Equity:				
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	142,348		18,459	160,807
Reserved for Property Taxes	198,684	23,643	4,095	226,422
Reserved for Budget Stabilization	43,460			43,460
Unreserved, Designated:				
Designated for Budget Deficit	58,859			58,859
Unreserved, Undesignated, Reported in:				
General Fund	3,401,402			3,401,402
Special Revenue Funds			357,772	357,772
Debt Service Funds		809,230		809,230
Capital Projects Funds			204,410	204,410
Total Fund Balances	<u>3,844,753</u>	<u>832,873</u>	<u>584,736</u>	<u>5,262,362</u>
Total Liabilities and Fund Balances	<u>\$ 7,788,049</u>	<u>\$ 1,111,420</u>	<u>\$ 978,472</u>	<u>\$ 9,877,941</u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances		\$5,262,362
 <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.		36,900,467
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	336,052	
Grants	10,499	346,551
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but are not recognized on the balance sheet until due.		(67,536)
Interest Payable is accrued for outstanding long-term liabilities, while interest is not reported until due on the balance sheet.		(15,842)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(3,195,000)	
Sick Leave Benefit Payable	(751,516)	(3,946,516)
Net Assets of Governmental Activities		\$38,479,486

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,721,080	\$ 323,799	\$ 57,276	\$ 3,102,155
Intergovernmental	8,698,092	41,868	2,068,546	10,808,506
Interest	199,207		167	199,374
Tuition and Fees	605,829		33,245	639,074
Rent	500			500
Extracurricular Activities			186,993	186,993
Gifts and Donations			13,522	13,522
Customer Sales and Services			213,981	213,981
Miscellaneous	22,792		6,287	29,079
<i>Total Revenues</i>	<u>12,247,500</u>	<u>365,667</u>	<u>2,580,017</u>	<u>15,193,184</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	6,127,669		830,168	6,957,837
Special	828,833		697,553	1,526,386
Vocational	52,604			52,604
Other	5,836			5,836
Support Services:				
Pupils	373,124		83,137	456,261
Instructional Staff	463,615		243,470	707,085
Board of Education	118,792			118,792
Administration	1,045,619			1,045,619
Fiscal	342,772			342,772
Business			19,997	19,997
Operation and Maintenance of Plant	1,940,874		25,630	1,966,504
Pupil Transportation	621,453			621,453
Operation of Non-Instructional Services:				
Food Service Operations	704		628,526	629,230
Extracurricular Activities	167,990		92,416	260,406
Debt Service:				
Principal		205,000		205,000
Interest		170,346		170,346
<i>Total Expenditures</i>	<u>12,089,885</u>	<u>375,346</u>	<u>2,620,897</u>	<u>15,086,128</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>157,615</u>	<u>(9,679)</u>	<u>(40,880)</u>	<u>107,056</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	20,033		33,000	53,033
Transfers Out	(33,000)		(20,033)	(53,033)
<i>Total Other Financing Sources and Uses</i>	<u>(12,967)</u>		<u>12,967</u>	
<i>Net Change in Fund Balances</i>	144,648	(9,679)	(27,913)	107,056
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>3,700,105</u>	<u>842,552</u>	<u>612,649</u>	<u>5,155,306</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 3,844,753</u>	<u>\$ 832,873</u>	<u>\$ 584,736</u>	<u>\$ 5,262,362</u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, 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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$107,056

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Asset Additions	214,233	
Depreciation Expense	<u>(1,574,352)</u>	(1,360,119)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants	(72,936)	
Delinquent Taxes	<u>(41,922)</u>	(114,858)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

205,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.

958

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	(1,836)	
Sick Leave Benefits Payable	<u>(40,251)</u>	<u>(42,087)</u>

Change in Net Assets of Governmental Activities

(\$1,204,050)

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,535,169	\$ 2,616,063	\$ 2,616,063	
Intergovernmental	9,202,237	8,696,491	8,698,092	\$ 1,601
Interest	145,000	197,000	199,390	2,390
Tuition and Fees	610,217	602,621	605,829	3,208
Rent		500	500	
Miscellaneous	4,080	23,114	22,792	(322)
<i>Total Revenues</i>	<u>12,496,703</u>	<u>12,135,789</u>	<u>12,142,666</u>	<u>6,877</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,742,522	6,076,880	6,090,601	(13,721)
Special	995,979	827,372	824,904	2,468
Vocational	51,835	51,835	52,008	(173)
Other	9,000	9,000	6,306	2,694
Support Services:				
Pupils	377,445	379,705	379,292	413
Instructional Staff	377,709	462,922	463,068	(146)
Board of Education	116,615	105,035	105,144	(109)
Administration	1,027,174	1,036,774	1,036,077	697
Fiscal	343,920	353,356	354,836	(1,480)
Operation and Maintenance of Plant	2,033,429	2,040,429	2,041,965	(1,536)
Pupil Transportation	584,121	638,151	636,710	1,441
Operation of Non-Instructional Services:				
Food Service Operations	738	738	704	34
Extracurricular Activities:				
Academic Oriented Activities	2,111	2,111	2,104	7
Sport Oriented Activities	123,072	123,072	122,101	971
School and Public Service Co-Curricular Activities	52,614	52,614	43,894	8,720
<i>Total Expenditures</i>	<u>11,838,284</u>	<u>12,159,994</u>	<u>12,159,714</u>	<u>280</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>658,419</u>	<u>(24,205)</u>	<u>(17,048)</u>	<u>7,157</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	50,000		20,033	20,033
Advances In	1,377	1,377	1,377	
Refund of Prior Year Expenditures		(125)		125
Transfers Out	(100,000)	(33,000)	(33,000)	
<i>Total Other Financing Sources and Uses</i>	<u>(48,623)</u>	<u>(31,748)</u>	<u>(11,590)</u>	<u>20,158</u>
<i>Net Change in Fund Balances</i>	609,796	(55,953)	(28,638)	27,315
<i>Fund Balance (Deficit) at Beginning of Year</i>	4,792,906	4,792,906	4,792,906	
<i>Prior Year Encumbrances Appropriated</i>	179,546	179,546	179,546	
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 5,582,248</u>	<u>\$ 4,916,499</u>	<u>\$ 4,943,814</u>	<u>\$ 27,315</u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2006

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 42,308
<i>Total Current Assets</i>	<u>42,308</u>
<i>Total Assets</i>	<u>\$ 42,308</u>
LIABILITIES:	
Current Liabilities:	
Due to Students	\$ 42,308
<i>Total Current Liabilities</i>	<u>42,308</u>
<i>Total Liabilities</i>	<u>\$ 42,308</u>

The notes to the basic financial statements are an integral part of this statement.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

Fairland Local School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 67 noncertified, 122 certificated full time teaching personnel and eleven administrators who provide services to 1,808 students.

The Reporting Entity

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

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

The School District is associated with five organizations, two of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations are presented in Note 16 and 17 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Pilasco-Ross Special Education Regional Resource Center
South Central Ohio Computer Association

Insurance Purchasing Entity Risk Pools:

The Ohio School Plan
Ohio School Boards Association Workers' Compensation Group Rating Program
Lawrence County Schools Insurance Purchasing Consortium

Note 2 - Summary of Significant Accounting Policies

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

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The statements ordinarily distinguish between activities that are governmental and those that are considered business-type, however, the School District has no activities that are classified as business-type.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds for this School District: Governmental and Fiduciary.

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

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Bond Retirement Fund The Bond Retirement Fund accounts for tax revenues collected to repay outstanding general obligation bonds.

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

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

D. Basis of Accounting

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

Revenues - Exchange and 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. "Measurable" means the amount of the transaction can be determined, and "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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7).

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, investment earnings, tuition and fees, and certain 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, 2006, but which were levied to finance fiscal year 2007 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 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.

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to overnight repurchase agreements. These nonparticipating investment contracts are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$199,207 which includes \$67,632 assigned from other School District funds.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

G. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies and donated and purchased food held for consumption.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$5,000. The School 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 capitalized.

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

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	8 years

I. 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 government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization and unexpended revenues restricted for the purchase of buses. See Note 20 for additional information regarding set-asides.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "accrued vacation benefits payable", rather than long-term liabilities, as the balances are to be used by employees within the calendar year earned.

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

The entire sick leave benefit liability is reported on the government-wide financial statements.

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

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. As a general rule the effect of interfund activity has been eliminated from the government wide financial statements.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Designated Fund Balance

The School District has a designation of fund balance on the balance sheet of \$58,859 in the General Fund for money set aside by the Board of Education for the potential future budget deficits.

O. 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations and federal and state grants restricted to expenditure for specified purposes

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

P. 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 year 2006.

Q. Estimates

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

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

R. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

Note 3 - Changes in Accounting Principle

For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Note 4 – Accountability

The following funds had deficit fund balances at June 30, 2006:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Foodservice	\$29,325
Poverty Based Assistance Fund	90,628
Title I	54,146
Title II-A, Teacher Quality	7,839

The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP); the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) 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 GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Net Change in Fund Balance

GAAP Basis	\$144,648
Revenue Accruals	(104,834)
Beginning of Year:	
Prepaid Items	123,679
End of Year:	
Prepaid Items	(144,652)
Advances In	1,377
Expenditure Accruals	96,845
Encumbrances	<u>(145,701)</u>
Budget Basis	<u><u>(\$28,638)</u></u>

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits 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.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

6. 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;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers' acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the School District's bank balance of \$50,000 was covered by Federal Deposit Insurance Corporation.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments: The School District's investments are reported at fair value. As of June 30, 2006, the School District had the following investment:

	Fair Value	Maturity
Repurchase Agreements	\$6,916,664	1 day

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the settlement date and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is that securities must be marked to market daily. To date, no investments have been purchased with a life greater than one day.

Custodial Credit Risk For an investment, custodial credit risk is risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the School District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District.

Concentration of Credit Risk The School 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 School District at June 30, 2006:

Investment Type	Fair Value	% of Total
Repurchase Agreements	\$6,916,664	100%

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2005, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The School District receives property taxes from Lawrence County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

The amount available as an advance at June 30, 2006, was \$226,422 and is recognized as revenue: \$198,684 in the General Fund, \$23,643 in the Bond Retirement Fund and \$4,095 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2005, was \$93,667 in the General Fund, \$11,146 in the Bond Retirement Fund and \$1,928 in the Classroom Facilities Special Revenue 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 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$130,387,010	93%	\$133,077,370	94%
Public Utility Personal	5,196,720	4%	5,175,420	4%
Tangible Personal Property	4,184,795	3%	3,951,520	3%
Total	\$139,768,525	100%	\$142,204,310	100%
Tax rate per \$1,000 of assessed valuation	\$22.88		\$22.88	

Note 8 - Receivables

Receivables at June 30, 2006, consisted of property taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Special Revenue Funds:	
IDEA-B Grant	\$37,505
Title I Grant	13,364
Title II-A Grant	5,748
Total Intergovernmental Receivables	\$56,617

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Capital Assets:				
Capital Assets not being Depreciated:				
Land and Land Improvements	\$198,591	\$0	\$0	\$198,591
Total Capital Assets not being Depreciated	198,591	0	0	198,591
Depreciable Capital Assets:				
Buildings and Improvements	43,008,842	149,419	0	43,158,261
Furniture and Equipment	2,366,708	64,814	0	2,431,522
Vehicles	1,061,684	0	0	1,061,684
Total Capital Assets being Depreciated	46,437,234	214,233	0	46,651,467
Less Accumulated Depreciation				
Buildings and Improvements	(7,054,015)	(1,342,764)	0	(8,396,779)
Furniture and Equipment	(567,260)	(157,642)	0	(724,902)
Vehicles	(753,964)	(73,946)	0	(827,910)
Total Accumulated Depreciation	(8,375,239)	(1,574,352) *	0	(9,949,591)
Total Capital Assets being Depreciated, Net	38,061,995	(1,360,119)	0	36,701,876
Capital Assets, Net	\$38,260,586	(\$1,360,119)	\$0	\$36,900,467

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,294,751
Support Services:	
Instructional Staff	115,910
Administration	5,158
Operation of Plant	22,784
Pupil Transportation	63,131
Food Service Operations	16,386
Extracurricular Activities	38,785
Central	17,447
Total Depreciation Expense	\$1,574,352 *

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Selective Insurance for property and fleet insurance.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

The type and amount of coverage provided follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$44,693,295
Automobile Liability (\$500 deductible):	
Bodily Injury and Property Damage – combined single limit	2,000,000
Medical Payments – each person	5,000
Uninsured Motorists	1,000,000

During fiscal year 2006, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products – Complete Operations Aggregate Limit	1,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	1,000,000
Per Disease Each Employee	1,000,000
Per Disease Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

B. Worker’s Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the 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. 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.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Note 11 - Employee Benefits

A. Compensated Absences

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

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 305 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 63 days.

Classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 295 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 57 days.

B. Life Insurance and Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to certified and classified employees through Coresource, Inc., in the amount of \$25,000.

Dental coverage is provided through Coresource Inc. Premiums for this coverage are \$61.65 monthly for family and \$20.71 monthly for single coverage. Employees contribute \$4 for family coverage and \$2 for single coverage.

During fiscal year 2006, health insurance was provided by CIGNA through April 30, 2006. Effective May 1, 2006, health insurance is provided by Medical Mutual of Ohio. Premiums for this coverage are \$1,359 for family coverage and \$550 for single coverage. The School District pays 85% of the premium for certified employees and classified employees who are not members of the non-teaching bargaining unit. The School District pays 83% of the premium for classified employees who are members of the non-teaching bargaining unit.

Vision insurance is provided through VisionPlus Inc. The School District pays 100% of the \$11.65 monthly premium for each employee. Employees may contribute \$16.87 to purchase family coverage if they so desire.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$176,165, \$213,727, and \$135,768 respectively; 43.4 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005, and 2004.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$804,308, \$760,961, and \$701,153 respectively; 83.03 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. \$136,452 represents the unpaid contribution for fiscal year 2006.

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 System/State Teachers Retirement System. As of June 30, 2006, one member of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS of Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS of Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$61,870 for fiscal year 2006.

STRS of Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS of Ohio were \$254,780,000 and STRS of Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006 employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the School District paid \$82,657 to fund health care benefits, including the surcharge.

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the prorated claim less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Note 14 - Long Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Outstanding 6/30/05	Additions	Reductions	Outstanding 6/30/06	Due in One Year
Governmental Activities					
Energy Conservation Bonds 1996 5.95%	\$75,000	\$0	\$75,000	\$0	\$0
OSFC Bonds, 1999 5.02%	3,325,000	0	130,000	3,195,000	135,000
Sick Leave Benefits	711,263	128,731	88,478	751,516	14,184
Total Governmental Activities					
Long-Term Liabilities	<u>\$4,111,263</u>	<u>\$128,731</u>	<u>\$293,478</u>	<u>\$3,946,516</u>	<u>\$149,184</u>

On December 1, 1996, the School District issued school energy conservation improvement bonds in the amount of \$600,000. The bonds were issued for energy efficiency improvements to School District buildings and will be paid from savings generated from reduced energy costs. The school energy conservation improvement bonds will be paid from the Bond Retirement Fund. At June 30, 2006, no bonds were outstanding on the school energy conservation debt.

On June 8, 1999 the School District issued \$4,005,000 in voted general obligation bonds for the purpose of constructing a new high school and additions and renovations to the three existing instructional buildings. The bonds were issued for a 23 year period with a final maturity at December 1, 2021. The School Improvement General Obligation Bonds will be paid from the Bond Retirement Fund.

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, Food Service, Poverty Based Assistance Fund (PBA) and Grants to Local Education Agencies (Title I Grant and Title II-A Grant).

Fairland Local School District, Ohio
Notes to the Basic Financial Statements
For Fiscal Year Ended June 30, 2006

Annual requirement to school improvement general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$135,000	\$160,250	\$295,250
2008	140,000	154,268	294,268
2009	145,000	147,961	292,961
2010	155,000	141,248	296,248
2011	160,000	134,080	294,080
2012-2016	950,000	516,550	1,466,550
2017-2021	1,225,000	230,375	1,455,375
2022	285,000	7,125	292,125
Total	<u>\$3,195,000</u>	<u>\$1,491,857</u>	<u>\$4,686,857</u>

The overall debt margin of the School District as of June 30, 2006 was \$12,545,683, with an unvoted debt margin of \$142,204.

Note 15 – Interfund Balances and Transfers

There were no interfund receivables or payables at June 30, 2006.

Note 16 - Jointly Governed Organizations

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. Fairland Local School District paid \$63,336 for services provided during fiscal year 2006. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Pilasco-Ross is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the South Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2006, the School District paid \$42,034 to Pilasco-Ross. Dawson-Bryant Local School District serves as the fiscal agent for Pilasco-Ross. To obtain financial information write to the Dawson Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

Fairland Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 17- Insurance Purchasing Entity Risk Pools

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

The School District participates in the Ohio School Boards Association 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 OSBA. The Executive Director of the OSBA, 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.

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

Note 18 – Contractual Commitments

As of June 30, 2006, the School District had no contractual purchase commitments.

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is currently not a party to any legal proceedings.

Fairland Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 20 - Set-Aside Calculations and Fund Reserves

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

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

	<u>Budget Stabilization</u>	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2005	\$43,460	\$0	\$0
Current Year Set-aside Requirement	0	232,606	232,606
Additional Amount Set-aside		0	0
Offsets	0	0	(58,991)
Qualifying Disbursements	0	(232,606)	(202,795)
Required Set aside	<u>\$43,460</u>	<u>0</u>	<u>(29,180)</u>
Carry over to Fiscal Year 2006	<u>\$43,460</u>	<u>\$0</u>	<u>\$0</u>

**FAIRLAND LOCAL SCHOOL DISTRICT, OHIO
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation	N/A	10.550	\$0	\$92,825	\$0	\$92,825
Nutrition Cluster: School Breakfast Program	05PU-2005	10.553	11,125		11,125	
	05PU-2006		<u>55,574</u>		<u>55,574</u>	
Total School Breakfast Program			<u>66,699</u>	0	<u>66,699</u>	0
National School Lunch Program	LLP4-2005	10.555	32,112		32,112	
	LLP4-2006		<u>155,284</u>		<u>155,284</u>	
Total National School Lunch Program			<u>187,396</u>	0	<u>187,396</u>	0
Total Nutrition Cluster			<u>254,095</u>	0	<u>254,095</u>	0
Total United States Department of Agriculture			254,095	92,825	254,095	92,825
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2005	84.010	74,307		85,560	
	C1S1-2006		<u>465,046</u>		<u>438,782</u>	
Total Title I Grants to Local Educational Agencies			<u>539,353</u>	0	<u>524,342</u>	0
Special Education _Grants to States	6BSF-2005	84.027	122,785		131,554	
	6BSF-2006		<u>392,931</u>		<u>353,412</u>	
Total Special Education _Grants to States			<u>515,716</u>	0	<u>484,966</u>	0
Safe and Drug-Free Schools and Communities_State Grants	DRS1-2006	84.186	13,509		13,509	
State Grants for Innovative Programs	C2S1-2006	84.298	5,524		5,524	
Education Technology State Grants	TJS1-2005	84.318	1,377			
	TJS1-2006		<u>8,704</u>		<u>8,704</u>	
Total Education Technology State Grants			<u>10,081</u>	0	<u>8,704</u>	0
Advanced Placement Program	AVS1-2001	84.330	500			
	AVTF-2005		<u>104</u>			
Total Advanced Placement Program			<u>604</u>	0	<u>0</u>	0
Improving Teacher Quality State Grants	TRS1-2005	84.367	14,878		17,163	
	TRS1-2006		<u>103,141</u>		<u>96,515</u>	
Total Improving Teacher Quality State Grants			<u>118,019</u>	0	<u>113,678</u>	0
Total United States Department of Education			<u>1,202,806</u>	0	<u>1,150,723</u>	0
Total Federal Awards Receipts and Expenditures			<u>\$1,456,901</u>	<u>\$92,825</u>	<u>\$1,404,818</u>	<u>\$92,825</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**FAIRLAND LOCAL SCHOOL DISTRICT, OHIO
LAWRENCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – POSTING OF CHILD NUTRITION CLUSTER MONIES

During fiscal year 2006, the District posted School Breakfast Program and National School Lunch Program reimbursements in June 2006. These monies were not received until July 2006. These receipts are for May 2006 reimbursement and are reflected as receipts and expenditures on the Schedule. Reimbursements are posted as follows:

From:	Amount:	Passthrough Number:
CFDA 10.553	\$ 7,411	05PU-2006
CFDA 10.555	\$18,796	LLP4-2006

NOTE D – REIMBURSEMENTS FOR ADVANCED PLACEMENT PROGRAM

During fiscal year 2006, the District received reimbursements for the Advanced Placement Program. The expenditures for the program were made in fiscal year 2005. Those expenditures were not included on the Schedule in fiscal year 2005. The reimbursements are included on the Schedule for fiscal year 2006 as follows:

From:	Amount:	Passthrough Number:
CFDA 84.330	\$ 500	AVS1-2001
CFDA 84.330	\$ 104	AVTF-2005



Mary Taylor, CPA

Auditor of State

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

Fairland Local School District
Lawrence County
228 Private Drive 10010
Proctorville, Ohio 45669

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated January 26, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated January 26, 2007, we reported an other matter related to noncompliance we deemed immaterial.

Fairland Local School District
Lawrence County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

January 26, 2007



Mary Taylor, CPA

Auditor of State

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

Fairland Local School District
Lawrence County
228 Private Drive
Proctorville, Ohio 45669

To the Board of Education:

Compliance

We have audited the compliance of Fairland Local School District, Lawrence County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006. In a separate letter to the School District's management dated January 26, 2007, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 26, 2007

**FAIRLAND LOCAL SCHOOL DISTRICT, OHIO
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies - CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**FAIRLAND LOCAL SCHOOL DISTRICT, OHIO
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

FAIRFIELD LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 22, 2007