

**Fairfield Union  
Local School District**

Fairfield County

**Financial Statements**

June 30, 2003





**Auditor of State  
Betty Montgomery**

Board of Education  
Fairfield Union Local School District  
West Rushville, Ohio

We have reviewed the Independent Auditor's Report of the Fairfield Union Local School District, Fairfield County, prepared by Kennedy, Cottrell & Associates LLC, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

March 16, 2004

**This Page is Intentionally Left Blank.**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	20
Statement of Net Assets - Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23
Statement of Fiduciary Net Assets - Fiduciary Funds	24
Notes to the Basic Financial Statements	25
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	55
Schedule of Receipts and Expenditures of Federal Awards	57
Notes to the Schedule of Receipts and Expenditures of Federal Awards	58
Schedule of Findings and Questioned Costs	59

**This Page is Intentionally Left Blank.**

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Fairfield Union Local School District  
7698 W. Main Street  
West Rushville, OH 43163-0067

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

As described in Note 3, the District has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Fairfield Union Local School District  
Fairfield County  
Independent Auditor's Report  
Page 2

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates LLC  
Columbus, Ohio  
February 26, 2004

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

As management of the Fairfield Union Local School District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended June 30, 2003.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$ 3.6 million (net assets).
- The District's net assets decreased by \$ 478,398, or 11.6%. Program revenues accounted for \$ 1.4 million or 10% of total revenues, and general revenues accounted for \$ 13.1 million, or 90%.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 6 million, a decrease of \$ 517,757 in comparison with the prior year. Of this total amount, \$ 185,088 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was negative \$ 503,340, or negative 4% of total general fund expenditures.

**Overview of the Financial Statements**

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

**Government-wide financial statements**

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

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

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

The government-wide financial statements can be found on pages 14-15 of this report.

**Fund Financial Statements**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

*Governmental Funds*

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

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

The District maintains 28 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is the District's only major fund. Data from the other 27 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-18 of this report.

*Proprietary Funds*

The District's only proprietary funds are the internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The internal service funds are used to account for its Bureau of Worker's Compensation premiums and its self insurance activities. Since the internal service funds exclusively benefit governmental functions, they have been included with governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The basic fiduciary fund financial statement can be found on page 24 of this report.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 3.6 million at the close of the most recent fiscal year.

A large portion of the District's net assets, totaling \$3.1 million, reflects its investment in capital assets (e.g. land, buildings, equipment, etc.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the District's net assets totaling \$794,244 is restricted. The majority of this restricted balance is for capital projects. The amount of restricted net assets has resulted in a negative remaining balance of unrestricted net assets.

	<b>District Net Assets</b>	
	2002	2003
Current Assets	\$ 6,681,419	\$ 6,617,215
Capital Assets	6,033,681	5,550,666
Total Assets	12,715,100	12,167,881
Current Liabilities	4,961,579	5,215,888
Long-Term Liabilities	3,635,438	3,312,308
Total Liabilities	8,597,017	8,528,196
Net Assets:		
Invested in Capital Assets, net of related debt	3,683,318	3,150,303
Restricted	726,129	794,244
Unrestricted	(291,364)	(304,862)
Total Net Assets	\$ 4,118,083	\$ 3,639,685

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

*Governmental Activities*

The District's net assets decreased by \$ 478,398, or 11.6%. Key elements of this increase are as follows:

**Changes in Net Assets  
Governmental Activities 2003**

General Revenues	
Property Taxes	4,307,496
Grants and Entitlements	8,497,376
Other Revenue	<u>256,967</u>
Total General Revenue	13,061,839
Transfers In	<u>80,322</u>
Total Revenues	<u><u>14,527,529</u></u>
Expenses:	
Program Expenses	
Instruction	8,280,032
Support Services	4,949,255
Non-Instructional	503,831
Extra Curricular Activities	544,950
Interest and Fiscal Charges	122,115
Miscellaneous	<u>605,744</u>
Total Expenses	<u><u>15,005,927</u></u>
Changes in Net Assets	<u><u>\$ (478,398)</u></u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

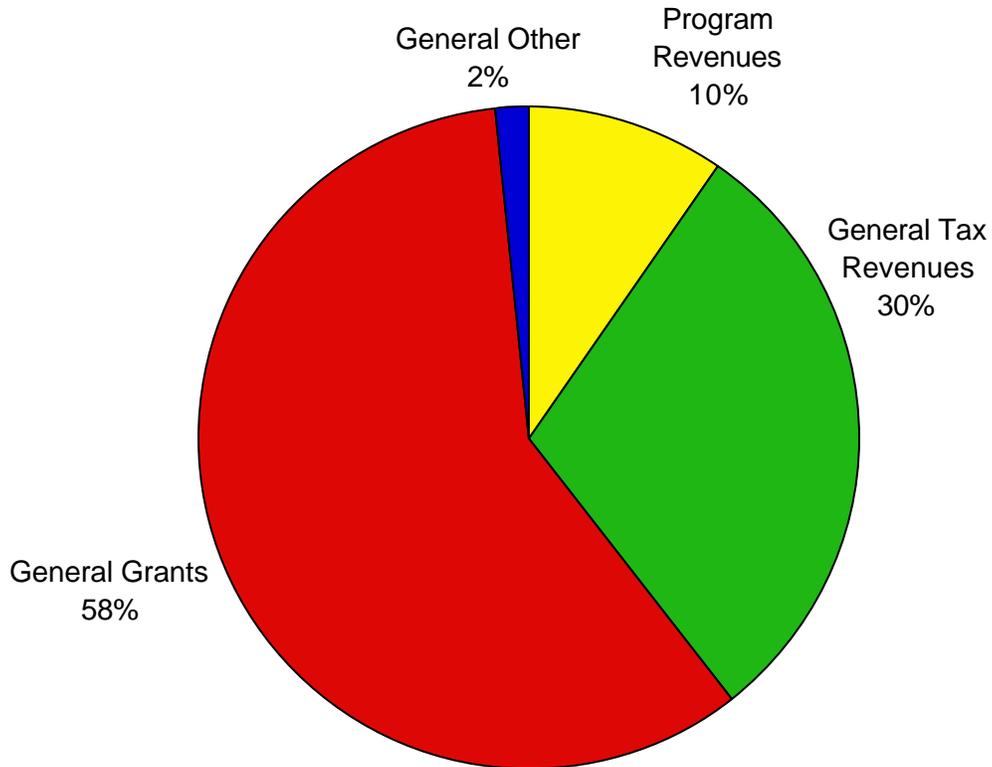
**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

The Statement of Activities shows the cost of program services and the charges for services and grants associated with those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. The net cost of program services must be supported by general revenues including tax revenue, investment earnings and unrestricted state entitlements.

	<b>Total Cost of Services 2003</b>	<b>Net Cost of Services 2003</b>
<b>Program Expenses</b>		
Instruction		
Regular	\$ 6,402,365	\$ 6,255,734
Special	1,534,696	1,143,651
Vocational	318,646	318,646
Other	24,325	24,325
Support Services		
Pupil	704,796	701,155
Instructional Staff	588,068	547,170
Board of Education	19,892	19,892
Administration	991,294	978,248
Fiscal Services	317,416	317,416
Maintenance	1,275,917	1,273,948
Pupil Transportation	932,158	932,158
Central	119,714	102,214
Noninstructional Activities	503,831	(26,123)
Extracurricular Activities	544,950	304,266
Interest and Fiscal Charges	122,115	122,115
Miscellaneous	<u>605,744</u>	<u>605,744</u>
<b>Total Expense</b>	<b><u>\$ 15,005,927</u></b>	<b><u>\$ 13,620,559</u></b>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**



The District's reliance upon tax revenues is demonstrated by the graph above indicating 30% of total revenues from local taxes. The reliance on general revenues is indicated by the net cost of services column on the preceding page reflecting the need for \$13.6 million of support, as well as the graph above, indicating general revenues comprise 90% of total revenues.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

**Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds*

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6 million, a decrease of \$517,757 in comparison with the prior year. Approximately 3% of this amount (\$185,088) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$152,878) or for a variety of other restricted purposes (\$ 594,069).

The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2003 and 2002.

	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Fund Balance</u> <u>June 30, 2002</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 137,791	\$ 569,219	\$ (431,428)
Other Governmental	<u>794,244</u>	<u>887,623</u>	<u>(93,379)</u>
Total	<u>\$ 932,035</u>	<u>\$ 1,456,842</u>	<u>\$ (524,807)</u>

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was negative \$503,340, while total fund balance was \$137,791. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents -4% of total general fund expenditures, while total fund balance represents -1% of that same amount.

The District's general fund balance decreased by \$424,378 during the current fiscal year. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

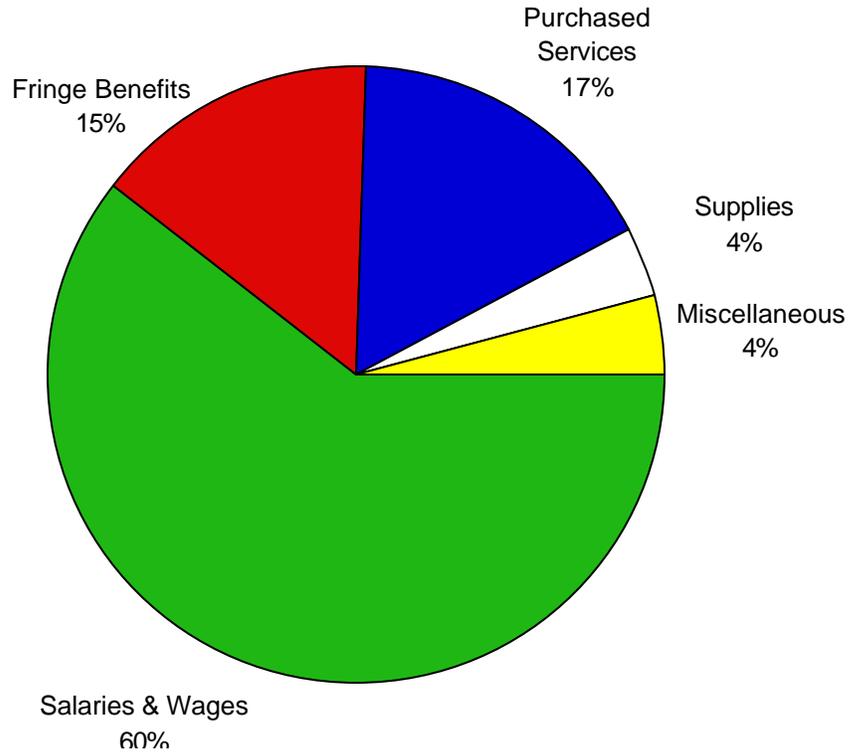
**General Fund Revenue Comparative Analysis**

<b>Revenues</b>	<b>2003 Amount</b>	<b>2002 Amount</b>	<b>Percentage Change</b>
Taxes	\$ 4,043,156	\$ 4,009,832	0.82%
Intergovernmental	7,497,394	7,253,760	3.25%
Interest	85,396	96,665	-13.20%
Tuition and Fees	1,013,200	937,111	7.51%
Other	<u>82,634</u>	<u>29,338</u>	64.50%
Total	<u>\$ 12,721,780</u>	<u>\$ 12,326,706</u>	3.11%

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

As the graph below illustrates, the largest portions of general fund expenditures are for salaries and fringe benefits. The District is a service entity and as such is labor intensive.



	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b>Expenditures by Object:</b>			
Salaries and Wages	\$ 7,712,553	\$ 7,302,691	6%
Fringe Benefits	2,683,429	2,405,603	12%
Purchased Services	1,460,380	1,620,093	-10%
Supplies	486,739	492,959	-1%
Miscellaneous	<u>567,290</u>	<u>630,507</u>	-10%
Total	<u>\$ 12,910,391</u>	<u>\$ 12,451,853</u>	4%

The District's general fund expenditures increased \$ 458,538 million, or 4%, over the prior year. The Salaries and Wages increase of \$ 409,862 and the Fringe Benefits increase of \$ 277,826 make up the majority of the increase.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003  
(UNAUDITED)**

The Salaries and Wages increase directly correlates with employee cost-of-living and step increases. The primary reason for the Fringe Benefits increase was the salary and wages increase of 6% coupled with an increase in employee insurance premiums during fiscal year 2003.

**General Fund Budget Information**

The District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Differences between the original budget and the final amended budget of the general fund were relatively minor. The original revenue estimate exceeded the final amended estimate by \$21,517, or .2%. The final amended appropriations exceeded the original appropriations by \$16,769, or .1%. The District's actual revenues exceeded the District's final amended estimate by \$5,068 while there was no difference between actual expenditures and the final amended appropriations.

**Capital Assets**

The District's investment in capital assets as of June 30, 2003, amounts to \$ 3.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furniture, fixtures and equipment, vehicles, and land improvements. Total acquisitions for the current fiscal year were \$ 194,492 and depreciation was \$ 365,694. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 10).

**Long-Term Obligations**

At June 30, 2003, the District had \$ 2.1 million in outstanding long-term obligations of which the District paid \$272,590 in principal during the fiscal year. Detailed information regarding long-term obligations is included in the notes to the basic financial statements (Note 15).

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total value of real and personal property. At June 30, 2003, the District's general obligation debt was below the legal limit.

**Restrictions and Other Limitations**

A major challenge facing the District is the future of state funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2003**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,710,308
Cash and Cash Equivalents with Fiscal Agents	605,274
Receivables:	
Taxes	3,755,032
Accounts	74,168
Intergovernmental	57,278
Supplies Inventory	79,640
Inventory Held for Resale	2,496
Prepaid Items	16,573
Restricted Cash and Cash Equivalents	366,446
Capital Assets, Net	<u>5,500,666</u>
<b>Total Assets</b>	<u><b>12,167,881</b></u>
<b>Liabilities</b>	
Accounts Payable	222,859
Accrued Salaries Payable	1,418,171
Intergovernmental Payable	324,513
Accrued Interest Payable	9,720
Due to Other Funds	4,634
Claims Payable	54,346
Deferred Revenue	3,181,645
Long-Term Liabilities	
Due within One Year	374,874
Due in More Than One Year	<u>2,937,434</u>
<b>Total Liabilities</b>	<u><b>8,528,196</b></u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,150,303
Restricted for:	
Debt Service	101,250
Capital Projects	403,894
Other Purposes	289,100
Unrestricted	<u>(304,862)</u>
<b>Total Net Assets</b>	<u><b>\$ 3,639,685</b></u>

See accompanying notes to the financial statements

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction				
Regular Instruction	\$ 6,402,365.00	\$ -	\$ 146,631.00	\$ (6,255,734.00)
Special Instruction	1,534,696	-	391,045	(1,143,651)
Vocational Instruction	318,646	-	-	(318,646)
Adult/Continuing Instruction	24,325	-	-	(24,325)
Support Services				
Pupils	704,796	-	3,641	(701,155)
Instructional Staff	588,068	-	40,898	(547,170)
Board of Education	19,892	-	-	(19,892)
Administration	991,294	-	13,046	(978,248)
Fiscal Services	317,416	-	-	(317,416)
Maintenance	1,275,917	-	1,969	(1,273,948)
Pupil Transportation	932,158	-	-	(932,158)
Central	119,714	-	17,500	(102,214)
Non-instructional	503,831	368,267	161,687	26,123
Extra Curricular Activities	544,950	178,908	61,776	(304,266)
Interest and Fiscal Charges	122,115	-	-	(122,115)
Miscellaneous	605,744	-	-	(605,744)
<b>Total Governmental Activities</b>	<u>15,005,927</u>	<u>547,175</u>	<u>838,193</u>	<u>(13,620,559)</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	4,043,156
Debt Service	77,361
Capital Projects	186,979
Grants & Entitlements not Restricted to Specific Programs	8,497,376
Investment Earnings	93,794
Miscellaneous	163,173
<b>Total General Revenues</b>	<u>13,061,839</u>
Transfers In	80,322
<b>Total General Revenues and Transfers</b>	13,142,161
Change in Net Assets	(478,398)
Net Assets Beginning of Year (See Note 3)	4,118,083
Net Assets End of Year	<u>\$ 3,639,685.00</u>

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2003**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 708,658	\$ 981,093	\$ 1,689,751
Receivables:			
Taxes	3,475,302	279,730	3,755,032
Accounts	67,668	6,327	73,995
Intergovernmental	14,660	42,618	57,278
Material and Supply Inventory	65,944	13,696	79,640
Inventory Held for Resale	-	2,496	2,496
Interfund Receivable	675	-	675
Prepaid Expenses	16,573	-	16,573
Restricted Cash	366,446	-	366,446
Total Assets	<u>\$4,715,926</u>	<u>\$1,325,960</u>	<u>\$6,041,886</u>
<b>Liabilities:</b>			
Accounts Payable	65,747	156,854	222,601
Accrued Salaries Payable	1,322,746	95,425	1,418,171
Intergovernmental Payable	185,213	11,234	196,447
Interfund Payable	-	675	675
Due to Other Funds	4,297	337	4,634
Deferred Revenue	2,914,454	267,191	3,181,645
Compensated Absences Payable	85,678	-	85,678
Total Liabilities	<u>4,578,135</u>	<u>531,716</u>	<u>5,109,851</u>
<b>Fund Balances:</b>			
Reserved for:			
Encumbrances	75,793	77,085	152,878
Budget Stabilization	366,446	-	366,446
Supplies Inventory	65,945	16,192	82,137
Property Taxes	132,947	12,539	145,486
Unreserved, Reported in:			
General Fund	(503,340)	-	(503,340)
Special Revenue Funds	-	269,443	269,443
Debt Service Fund	-	97,281	97,281
Capital Project Funds	-	321,704	321,704
Total Fund Balances	<u>137,791</u>	<u>794,244</u>	<u>932,035</u>
Total Liabilities and Fund Balances	<u>\$4,715,926</u>	<u>\$1,325,960</u>	<u>\$6,041,886</u>

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003**

**Total Governmental Fund Balances** \$ 932,035

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 5,500,666

Other long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds.

Internal service funds are used by management to charge costs of  
self insurance to the individual funds. The assets and liabilities  
of the internal service fund are included in governmental activities  
in the statement of net assets. 571,400

Long-Term liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported  
in the funds.

Compensated Absence Payable	(1,139,566)
Intergovernmental Payable	(128,066)
Accrued Interest Payable	(9,720)
General Obligation Debt	(2,087,064)
	<u>(3,364,416)</u>

**Net Assets of Governmental Activities** **\$ 3,639,685**

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 4,043,156	\$ 264,340	\$ 4,307,496
Intergovernmental	7,497,394	806,387	8,303,781
Charges for Services	-	368,267	368,267
Interest	85,396	13,057	98,453
Tuition and Fees	1,013,200	-	1,013,200
Extracurricular Activities	-	185,320	185,320
Rentals	-	50,732	50,732
Other	82,634	-	82,634
Total Revenues	<u>12,721,780</u>	<u>1,688,103</u>	<u>14,409,883</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	6,332,451	176,160	6,508,611
Special	1,080,213	489,854	1,570,067
Vocational	316,790	-	316,790
Adult/Continuing	24,716	-	24,716
Support services:			
Pupils	739,089	3,448	742,537
Instructional staff	508,815	45,397	554,212
Board of Education	19,892	-	19,892
Administration	979,982	15,783	995,765
Fiscal	308,239	4,622	312,861
Operation and Maintenance of Plant	1,011,089	33,493	1,044,582
Pupil Transportation	923,567	3,210	926,777
Central	93,266	26,448	119,714
Non-instructional Services	(2,084)	502,592	500,508
Extracurricular Activities	308,964	235,138	544,102
Capital Outlay	9,291	234,018	243,309
Debt service:			
Principal Retirement	200,590	72,000	272,590
Interest and Fiscal Charges	55,521	67,742	123,263
Total Expenditures	<u>12,910,391</u>	<u>1,909,905</u>	<u>14,820,296</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188,611)	(221,802)	(410,413)
<b>Other financing sources (uses):</b>			
Refund of Prior Year Receipts	(65,489)	(19,604)	(85,093)
Refund of Prior Year Expense	35,574	-	35,574
Proceeds from Inception of Capital Lease	9,291	-	9,291
Other Financing Sources	1,750	-	1,750
Other Financing Uses	(151,788)	-	(151,788)
Transfers In	80,000	148,271	228,271
Transfers Out	(145,105)	(244)	(145,349)
Total other financing sources (uses)	<u>(235,767)</u>	<u>128,423</u>	<u>(107,344)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(424,378)	(93,379)	(517,757)
Fund Balance at Beginning of Year, as restated	569,219	887,623	1,456,842
Increase (Decrease) in Inventory	(7,050)	-	(7,050)
Fund Balance at End of Year	<u>\$ 137,791</u>	<u>\$ 794,244</u>	<u>\$ 932,035</u>

See accompanying notes to the financial statements

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Net Change in Fund Balances - Total Governmental Funds** **\$ (517,757)**

*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 depreciation exceeded capital outlay in the current period.

(180,493)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.

272,590

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

1,148

Some expenses reported in the statement of activities, such as compensated absences payable and intergovernmental payable, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(362,288)

Internal service funds are used by management to charge costs of self insurance to the individual funds. The net revenue of these internal service fund activities is reported with governmental activities.

308,402

**Change in Net Assets of Governmental Activities**

\$ (478,398)

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER/(UNDER)
Total Revenues	\$ 12,716,110	\$ 12,694,593	\$ 12,699,661	\$ 5,068
Expenditures:				
Current:				
Instruction:				
Regular		6,321,408	6,321,408	0
Special		1,191,198	1,191,198	0
Vocational		320,619	320,619	0
Other		26,022	26,022	0
Support Services:				
Pupils		764,991	764,991	0
Instructional Staff		525,327	525,327	0
Board of Education		30,621	30,621	0
Administration		1,132,814	1,132,814	0
Fiscal		319,875	319,875	0
Operation and Maintenance of Plant		1,041,851	1,041,851	0
Pupil Transportation		941,654	941,654	0
Central		102,448	102,448	0
Extracurricular Activities		312,191	312,191	0
Capital Outlay		49,000	49,000	0
Debt Service:				
Principal Retirement		125,000	125,000	
Interest and Fiscal Charges		38,836	38,836	
Total Expenditures	<u>13,471,379</u>	<u>13,243,855</u>	<u>13,243,855</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(755,269)</u>	<u>(549,262)</u>	<u>(544,194)</u>	<u>5,068</u>
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets		1,750	1,750	
Refund of Prior Year Expenditures		35,619	35,619	
Refund of Prior Year Receipts		(98,513)	(98,513)	
Transfers In		80,000	80,000	
Transfers Out		(145,105)	(145,105)	0
Advances Out		(675)	(675)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(126,924)</u>	<u>(126,924)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(755,269)</u>	<u>(676,186)</u>	<u>(671,118)</u>	<u>5,068</u>
Fund Balances at Beginning of Year	1,423,099	1,423,099	1,423,099	0
Prior Year Encumbrances Appropriated	164,027	164,027	164,027	0
Fund Balances at End of Year	<u>\$ 831,857</u>	<u>\$ 910,940</u>	<u>\$ 916,008</u>	<u>\$ 5,068</u>

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AS OF JUNE 30, 2003**

	Governmental Activities - Internal Service Funds
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 20,557
Cash with Fiscal Agent	605,274
Accounts Receivable	<u>173</u>
Total Current Assets	<u>626,004</u>
<b>Current Liabilities</b>	
Accounts Payable	258
Claims Payable	<u>54,346</u>
Total Current Liabilities	<u>54,604</u>
Net Assets	
Unrestricted	<u>571,400</u>
Total Net Assets	<u>\$ 571,400</u>

**See accompanying notes to the financial statements**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Activities - Internal Service Funds</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,612,132
Extracurricular Activities	2,610
Total Operating Revenues	<u>1,614,742</u>
<b>Operating Expenses:</b>	
Insurance Claims	1,303,153
Purchased Services	1,056
Total Operating Expenses	<u>1,304,209</u>
Operating Income	<u>310,533</u>
<b>Non-Operating Revenues:</b>	
Earnings on Investments	<u>469</u>
Net Income before Operating Transfers	<u>311,002</u>
Operating Transfers	<u>(2,600)</u>
Net Income	<u>308,402</u>
Net Assets at Beginning of Year, as restated	<u>262,998</u>
Net Assets at End of Year	<u><u>\$ 571,400</u></u>

**See accompanying notes to the financial statements.**

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Activities - Internal Service Funds</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from interfund services provided	\$ 1,611,958
Other receipts	2,610
Payments for claims	(1,296,676)
Other payments	(1,065)
Net cash provided by operating activities	<u>316,827</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Transfers to other funds	(2,600)
<b>Cash Flows From Investing Activities</b>	
Interest received	469
Net Increase (Decrease) in Cash and Cash Equivalents	314,696
Cash and Cash Equivalents at Beginning of Year	<u>311,135</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 625,831</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:</b>	
Operating Income	\$ 310,533
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Change in Assets and Liabilities	
(Increase) in Accounts Receivable	(173)
Increase in Claims Payable	6,478
(Decrease) in Accounts Payable	(11)
Total Adjustments	<u>6,294</u>
Net Cash Provided by Operating Activities	<u><u>\$ 316,827</u></u>

**See accompanying notes to the financial statements**

FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AS OF JUNE 30, 2003

	Agency Funds
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 194,114
Accounts Receivable	406
Due from Other Funds	4,634
Total Assets	<u>199,154</u>
<b>Liabilities</b>	
Accounts Payable	2,450
Intergovernmental Payable	23,465
Due to Others	173,239
Total Liabilities	<u>\$ 199,154</u>

See accompanying notes to the financial statements

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 1. Description of the School District and Reporting Entity**

The Fairfield Union Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002, was 1,888. The District employed 119 certified employees and 78 non-certificated employees. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the district is financially accountable. This report includes all activities considered by management to be part of the District by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of a reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the District over which the District is financially accountable.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the 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 District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program 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 District with certain limited exceptions. 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 District.

**Fund Financial Statements**

Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column and all nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Major Governmental Funds:

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

Additionally, the government reports the following fund types:

Internal Service Fund - This fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's internal service fund accounts for the operation of the District's self-insurance program for employee health benefits.

Fiduciary Funds - These funds are used to report assets held by the District in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. These include pension trust funds, investment trust funds, private purpose trust funds and agency funds. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Basis of Presentation**

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.

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.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and 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. 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. The available period for the district is sixty days after fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the 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 year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

*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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

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

*Expenses/Expenditures*

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

**E. Cash and Investments**

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments." During the fiscal year all investments were limited to treasury and agency bonds and notes, the State Treasury Asset Reserve of Ohio (STAR Ohio) and a money market account. Investments are reported at cost except for investments in STAR Ohio which is reported at fair value. Fair value is based on quoted market prices.

The District has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General, Capital Projects, Enterprise, and Internal Service Funds during the fiscal year was \$98,922.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**F. Taxes Receivable**

The financial statements reflect taxes receivable as of June 30, 2003. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2003 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**G. Inventories**

On the government-wide financial statements, inventories are presented at the lower of cost or market using the first-in, first-out (FIFO) method and are expensed when used. On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption and food inventory held for resale.

**H. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A fund balance reserve has also been established.

**I. Capital Assets**

The District's only capital assets are general capital assets used in 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.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**J. Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." At June 30, 2003, the District had \$4,634, in "Due to/Due from Other Funds" and \$675 in "Interfund Receivables/Payables." These amounts are subsequently eliminated when preparing the government-wide financial statements.

**K. 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 employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the entity-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

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

All accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, 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 judgements, compensated absences, capital leases 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 year. Loans payable and capital leases are recognized as a liability on the governmental fund financial statements when due.

**M. Interfund Transactions**

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. Repayment from funds responsible for particular expenditures/expenses to the funds that paid for them are not presented on the financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**N. Fund Balance Reserves**

Reserved Fund Balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund Balances are reserved for supplies inventory, encumbrances, budget stabilization and future appropriation. The reserve for future appropriation represents the amount of the property taxes available for advance and recognized as revenue. The District is prohibited by law from appropriating the advance, since it was not received, for the current fiscal year. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

**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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**P. Estimates**

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

**Note 3. Change in Accounting Principles and Restatement of Fund Balances**

**A. Changes in Accounting Principles**

For the fiscal year 2003, the District has implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*," GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*," Statement No. 38, "*Certain Financial Statement Note Disclosures*" and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*."

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 3. Change in Accounting Principles and Restatement of Fund Balances (Continued)**

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arise, or potentially could arise, in interpretation and practice.

**B. Restatement of Prior Year Fund Balances**

In fiscal year 2003, the District's enterprise funds and nonexpendable trust fund were reclassified and reported as special revenue funds, which are considered nonmajor funds for GASB 34. The new standard for reporting fund obligations for compensated absences in Interpretation No. 6 also caused changes in previously reported fund balances.

These restatements had the following effect on fund balance of major and nonmajor funds of the District as they were previously reported. The transition from the governmental fund balance sheet to the statement of net assets of the governmental activities is also presented.

	General	Non-Major	Total
Fund Balance June 30, 2002	\$ 569,219	\$ 726,129	\$ 1,295,348
Fund Type Reclassification	0	161,494	161,494
Fund Balance June 30, 2002, restated	<u>\$ 569,219</u>	<u>\$ 887,623</u>	<u>\$ 1,456,842</u>
GASB 34 Adjustments:			
Capital Assets			6,033,681
Long-Term Liabilities			(3,635,438)
Internal Service Fund			262,998
Governmental Activities			
Net Assets, June 30, 2002			<u>\$ 4,118,083</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 4. Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balances 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 – 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 basis are as follows:

**Excess (Deficiency) of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses**

	<b>General Fund</b>
GAAP basis	\$ (453,664)
Revenue accruals	(22,073)
Expenditure accruals	(36,284)
Encumbrances	(159,097)
Budget basis	\$ (671,118)

**Note 5. Accountability and Compliance**

**Fund Deficits**

Fund balances and retained earnings at June 30, 2003, included the following individual fund deficits:

Title I Grant	\$(21,079)
Title IV Grant	\$(1,245)
Title V Grant	\$(960)
IDEA -B Grant	\$(81,259)
Summer Intervention Grant	\$(601)
SchoolNet Grant	\$(4)

These deficits are due, primarily, to the adjustments made for accrued liabilities. The general fund is liable for any deficits in the funds and provides operating transfers when cash is required, not when accruals occur.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 6. Deposits and Investments**

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

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool. By law, financial institutions must establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110 percent of public funds on deposit. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 6. Deposits and Investments (Continued)**

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

**Deposits:** At year end, the carrying amount of the District's deposits was \$227,942 and the bank balance was \$233,600. Of the bank balance, \$200,000 was in Certificates of Deposit. The remaining bank balance was covered by Federal Depository Insurance.

**Investments:** The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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

	Category			Reported Amount	Fair Value
	1	2	3		
Money Market Account	-	-	\$1,026,478	\$1,026,478	\$1,026,478
Treasury Bonds and Notes	-	-	\$ 863,529	863,529	870,163
STAR Ohio	N/A	N/A	N/A	152,919	152,919
Total Investments				<u>\$2,042,926</u>	<u>\$2,049,560</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 6. Deposits and Investments (Continued)**

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash	
	Equivalents	Investments
GASB Statement No. 9	\$ 2,876,142	\$ 0
Investments:		
Money Market Account	(1,026,478)	1,026,478
Treasury Bonds and Notes	(863,529)	863,529
STAR Ohio	(152,919)	152,919
Cash with Fiscal Agent	(605,274)	
GASB Statement No. 3	\$ 227,942	\$ 2,042,926

**Note 7. Property and School Income Tax**

**School Income Tax**

The District currently benefits from a .75% income tax, which is assessed on all residents of the District. The District apportions all the proceeds to the general fund.

**Property Tax**

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Fairfield County Auditor at 35% of appraised market value. All property is required to be revalued every six years.

The last revaluation for the District was completed in 2001 and an update is scheduled for 2004. The next revaluation is scheduled for 2007. 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 usually due February 14, with the remainder payable June 20.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 7. Property and School Income Tax (continued)**

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually, the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Fairfield County Treasurer collects property tax on behalf of the District. The Fairfield County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2003 for operations was \$43.00 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2003 taxes were collected were as follows:

Real Property-Residential/Agricultural	\$ 128,071,590
Real Property-Public Utility	55,190
Real Property-Commercial/Industrial	7,623,460
Real Property-Minerals	786,010
Personal Property-General	3,066,015
Personal Property-Public Utility	9,954,960
Total Assessed Value	<u>\$ 149,557,225</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 8. Receivables**

Receivables at June 30, 2003 consisted of taxes, accounts and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

Governmental Activities		
General Fund	\$	14,660
Special Revenue Funds		42,618
Total Governmental Activities	\$	<u>57,278</u>

**Note 9. Interfund Transactions**

At June 30, 2003, the District has interfund receivables/payables which are classified as "Due to Other Funds" and "Due from Other Funds." An analysis of interfund balances is as follows:

	Due To	Due From
General Fund	\$ 4,297	\$ 0
Special Revenue Fund	337	0
Agency Fund	<u>0</u>	<u>4,634</u>
	<u>\$ 4,634</u>	<u>\$ 4,634</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 10. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Non-depreciated Assets:				
Land	\$ 198,228	\$ 0	\$ 0	\$ 198,228
Depreciated Assets:				
Buildings and Improvements	5,012,457	0	0	5,012,457
Furniture and Equipment	3,013,795	77,939	(595,917)	2,495,817
Vehicles	1,156,193	57,458	(56,212)	1,157,439
Textbooks/Library Books	755,029	59,095	(80,630)	733,494
Total Historical Cost	<u>10,135,702</u>	<u>194,492</u>	<u>(732,759)</u>	<u>9,597,435</u>
Less Accumulated Depreciation:	(4,102,021)	(365,694)	370,946	(4,096,769)
Capital Assets, Net	<u>\$ 6,033,681</u>	<u>\$ (171,202)</u>	<u>\$ (361,813)</u>	<u>\$ 5,500,666</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 10. Capital Assets (continued)**

\*Depreciation expenses were charged to governmental functions as follows:

Instruction:

Regular	\$	108,311
Special		631
Vocational		2,602

Support Services:

Pupil		1,741
Instructional Staff		83,794
Administration		31,976
Fiscal		2,436
Operation and Maintenance of Plant		19,509
Pupil Transportation		95,333
Operation of Non-Instructional Services		3,720
Academic Oriented Activities		959
Sport Oriented Activities		14,020
Co-Curricular Activities		662
Total Depreciation	\$	365,694

**Note 11. Defined Benefit Pension Plans**

**School Employees Retirement System**

**Plan Description.** The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Funding Policy.** Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS' Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$285,384, \$245,832, and \$235,392, respectively. 44.83% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$175,630, representing the unpaid contribution for fiscal year 2003, including the surcharge, is recorded as a liability within the respective funds.

**State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2002 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090

**Plan Options** – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

Chapter 3307 of the Revised Code provides the statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2002, were 9.3 percent of covered payroll for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$838,632, \$862,440, and \$822,840, respectively. 83.33% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$139,774, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 12. Postemployment Benefits**

**School Employees Retirement System**

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2003, the healthcare allocation was 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million.

The number of recipients currently receiving health care benefits is approximately 50,000. For the District, the amount contributed to fund postemployment benefits during fiscal year 2003 was \$151,780.

**State Teachers Retirement System**

The State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions equal to the Health Care Stabilization Fund from which health care benefits are paid. Effective July 1, 2002, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, a decrease of 3.5% from fiscal year 2002. For the District, the amount contributed to fund postemployment benefits during fiscal year 2003 was \$59,902. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and there were 105,300 eligible benefit recipients.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 13. Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements, Board policies and State laws. Only administrative and support personnel who are under a full year contract (12 months) are eligible for vacation time. The Superintendent is granted twenty days of vacation per year and the Treasurer is granted fifteen days per year. Classified staff are granted vacation days as follows:

<u>Years of Service</u>	<u>Vacation Days</u>
1 - 7	10
8 -15	15
16+	20

Vacation time for classified employees has use restrictions, employees are expected to use earned vacation during the ensuing twelve month period. If at the end of the twelve month period, an employee has not used all of their earned vacation, the employee has the option of transferring the unused vacation to the following year (for use by December 31 of that year), or payment in lieu of vacation at 60% of the employees rate. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for severance is 230 days.

Retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 56 days. In addition, certified employees who retire at thirty years of service and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 56 days.

**Note 14. Risk Management**

**A. General Risk**

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. In addition, the District maintains excess coverage for errors and omissions and defense cost at \$2,000,000. The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$28,235,100.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 14. Risk Management (Continued)**

**B. Workers' Compensation-Public Entity Risk Pool**

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for 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.

**C. Health Insurance**

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs. This self-insurance fund was established for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the General Fund, Lunchroom Fund, and certain Special Revenue Funds (Grants). Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier. Effective July 1, 1996, the District terminated the independent carrier for self-insurance for basic medical and prescription drug coverage and joined the South Central Ohio Insurance Consortium (SCOIC). The District continues to maintain an independent self-insurance fund for dental coverage. Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator.

These liabilities are reported at their present value of \$54,346 at June 30, 2003.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 14. Risk Management (Continued)**

A summary of changes in self-insurance claims for the year ended June 30, 2003:

	June 30, 2003	June 30, 2002
Beginning Balance	\$ 47,868	\$ 43,627
Incurred Claims	856,067	1,738,489
Claims Paid	(849,589)	(1,734,248)
Ending Balance	<u>\$ 54,346</u>	<u>\$ 47,868</u>

SCOIC currently includes eight member districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent.

EV Benefits, a third party administrator, services all health / medical claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of the \$50,000 paid by the District, and the \$50,000 paid by the consortium pool; the lifetime maximum, per employee consortium wide is \$3,000,000 lifetime maximum, per employee consortium wide.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 15. Long-Term Obligations**

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance		Balance		Amounts Due
	July 1, 2002	Additions	Deletions	June 30, 2003	in One Year
General Obligation Bonds-Buildings	\$ 955,000	\$ 0	\$ 30,000	\$ 925,000	\$ 35,000
General Obligation Bonds-Buses	254,000	0	42,000	212,000	45,000
General Obligation Notes-Energy Conservation Program	905,000	0	125,000	780,000	135,000
Capital Leases Payable	236,363	9,291	75,590	170,064	31,193
Compensated Absences Payable	1,221,368	3,876	0	1,225,244	128,681
<b>Total</b>	<b>\$ 3,571,731</b>	<b>\$ 13,167</b>	<b>\$ 272,590</b>	<b>\$ 3,312,308</b>	<b>\$ 374,874</b>

**General Obligation Bonds:**

The \$925,000 of outstanding general obligation bond relate to two projects. In 1993, bonds were issued for the purpose of an addition, remodeling and equipping the middle school building and improving the site thereof and an activity center at the high school. The bonds were issued for \$1,150,000 at 5.9% interest and mature December, 2018. These bonds are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof. The annual maturities of the general obligation bonds as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY 2004	\$ 35,000	\$ 52,860	\$ 87,860
FY 2005	35,000	51,093	86,093
FY 2006	35,000	49,290	84,290
FY 2007	35,000	47,347	82,347
FY 2008	40,000	45,135	85,135
FY 2009 - FY 2013	270,000	183,490	453,490
FY 2014 - FY 2018	390,000	84,665	474,665
FY 2019	85,000	2,507	87,507
<b>Totals</b>	<b>\$ 925,000</b>	<b>\$ 516,387</b>	<b>\$ 1,441,387</b>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 15. Long-Term Obligations (Continued)**

**General Obligation Notes:**

In December, 1997 the District issued general obligation notes for H.B. 264 energy improvements. The notes were issued for \$1,047,892 at 4.4% interest and mature December, 2005. The balance of this debt was refinanced in November, 1998 extending the payment schedule an additional five years. In June, 1999 the District issued additional general obligation notes for H.B. 264 energy improvements. The notes were issued for \$425,000 at 4.85% interest and mature December, 2013. The annual maturities of these general obligation notes as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY 2004	\$ 135,000	\$ 33,082	\$ 168,082
FY 2005	145,000	26,866	171,866
FY 2006	155,000	20,187	175,187
FY 2007	25,000	16,126	41,126
FY 2008	30,000	14,792	44,792
FY 2009 - FY 2013	225,000	45,469	270,469
FY 2014	65,000	1,578	66,578
Totals	<u>\$ 780,000</u>	<u>\$ 158,100</u>	<u>\$ 938,100</u>

**General Obligation Bus Bonds:**

In February of 1996, the District issued \$260,000 in general obligation bus bonds for the purchase of five school buses. The bonds have an average interest of 5.38% and mature in 2007. The annual maturities of the general obligation bus bonds as of June 30, 2003, and related interest payments are as follows:

	Principal	Interest	Payment
FY 2004	\$ 28,000	\$ 6,553	\$ 34,553
FY 2005	29,000	5,055	34,055
FY 2006	29,000	3,489	32,489
FY 2007	35,000	1,815	36,815
Totals	<u>\$ 121,000</u>	<u>\$ 16,912</u>	<u>\$ 137,912</u>

In February of 1998, the District issued \$164,000 in general obligation bus bonds for the purchase of school buses. The bonds have an average interest of 5% and mature in 2008. The annual maturities of the general obligation bus bonds as of June 30, 2003, and related interest payments are as follows:

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 15. Notes and Long-Term Debt (continued)**

	Principal	Interest	Payment
FY 2004	\$ 17,000	\$ 4,550	\$ 21,550
FY 2005	16,000	3,700	19,700
FY 2006	18,000	2,900	20,900
FY 2007	20,000	2,000	22,000
FY 2008	20,000	1,000	21,000
Totals	<u>\$ 91,000</u>	<u>\$ 14,150</u>	<u>\$ 105,150</u>

**Capital Leases:**

The District is making installment payments on copier machines. This equipment has been capitalized in the general fixed assets account group. This obligation has an outstanding balance of \$115,992 at June 30, 2003. The annual payments and related interest payments are as follows:

	Principal	Interest	Payment
FY 2004	\$ 31,193	\$ 8,134	\$ 39,327
FY 2005	33,709	5,618	39,327
FY 2006	36,469	2,859	39,328
FY 2007	24,943	412	25,355
Totals	<u>\$ 126,314</u>	<u>\$ 17,023</u>	<u>\$ 143,337</u>

The District has entered into a land lease with option to purchase for a 43.215 acre parcel of land in Fairfield County on June 1, 2002. The lease/purchase price of \$175,000 will be paid over a four year period at an interest rate of 6 percent. The annual payments and related interest payments are as follows:

	Principal	Interest	Payment
FY 2004	\$ 43,750	\$ 2,625	\$ 46,375
Totals	<u>\$ 43,750</u>	<u>\$ 2,625</u>	<u>\$ 46,375</u>

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt, the District 's unvoted debt limit is \$149,557. The voted debt limit at June 30, 2003 is \$13,460,150.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 16. Jointly Governed Organizations**

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

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

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

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

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 17. Contingencies**

**A. Grants**

The District receives 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

**B. Litigation**

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

**Note 18. School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Note 19. Statutory Reserves**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Acquisition	Capital Acquisition	Budget Stabilization	Total
Set aside Cash Balance as of June 30, 2003	\$ 0	\$ 0	\$ 254,825	\$ 254,825
Current Year Set-Aside Requirement	255,564	255,564	111,621	622,749
Current Year Offsets	0	0	0	0
Qualifying Disbursements	<u>(340,294)</u>	<u>(453,133)</u>	<u>0</u>	<u>(793,427)</u>
Total	<u>(84,730)</u>	<u>(197,569)</u>	<u>366,446</u>	<u>84,147</u>
Cash Balance Carried Forward to FY 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 366,446</u>	
Amount Restricted for Budget Stabilization				<u>\$ 366,446</u>
Total Restricted Assets				<u>\$ 366,446</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. At the discretion of the District, these amounts may be used to reduce the set-aside requirement of future years. Until such determination is made, negative amounts are not presented as being carried forward to the next fiscal year.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROLS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Fairfield Union Local School District  
7698 W. Main Street  
West Rushville, OH 43163-0067

We have audited the accompanying financial statements of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The District has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education  
Fairfield Union Local School District  
Independent Auditor's Report on Compliance and on Internal Controls  
Required By *Government Auditing Standards*  
Page 2

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates LLC  
February 26, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**

Board of Education  
Fairfield Union Local School District  
7698 W. Main Street  
West Rushville, OH 43163-0067

**Compliance**

We have audited the compliance of The Fairfield Union Local School District, Fairfield County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

**Internal Control over Compliance**

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

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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### **Schedule of Receipts and Expenditures of Federal Awards**

We have audited the basic financial statements of the District as of and for the year ended June 30, 2003, and have issued our report thereon dated February 26, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates LLC  
February 26, 2004

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal grantor/Pass through grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass through number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Pass-through State Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550		\$ -	\$ 37,853	\$ -	\$ 40,097
National School Lunch Program	10.555	046870 LL-P4	91,948	-	91,948	-
Total U.S. Department of Agriculture - Nutrition Cluster			<u>91,948</u>	<u>37,853</u>	<u>91,948</u>	<u>40,097</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Pass-through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	84.010	046870 C1/SD	258,031	-	291,151	-
Special Education-Grants to States-Title VI-B	84.027	046870 6B-SF	152,482	-	149,808	-
Safe and Drug Free Schools and Communities	84.186	046870 DR-S1	9,555	-	8,607	-
Eisenhower Professional Development State Grants	84.281	046870 MS-S1	948	-	6,791	-
Innovative Education Program Strategies	84.298	046870 C2-S1	9,822	-	8,642	-
Education Technology State Grants	84.318	046870 TJ-S1	6,589	-	6,589	-
Title VI-R-Class-Size Reduction	84.340	046870 CR-S1	1,562	-	10,460	-
School Renovation - Idea & Technology	84.352A	046870 AT-S2/S3	3,470	-	3,470	-
Improving Teacher Quality State Grants	84.367	046870 TR-S1	72,641	-	65,228	-
Total U.S. Department of Education			<u>515,100</u>	<u>-</u>	<u>550,746</u>	<u>-</u>
<b><u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>						
<i>Pass-through Ohio Department of Job and Family Services:</i>						
PRCDA Grant	93.558		8,299	-	8,299	-
Total Department of Job and Family Services			<u>8,299</u>	<u>-</u>	<u>8,299</u>	<u>-</u>
<b>Totals</b>			<u>\$615,347</u>	<u>\$ 37,853</u>	<u>\$ 650,993</u>	<u>\$ 40,097</u>

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION**

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

**NOTE C – MATCHING REQUIREMENTS**

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 § .505**

**JUNE 30, 2003**

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

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	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(a) of Circular A-133?	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

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

**FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 1, 2004**