



**Auditor of State  
Betty Montgomery**



**FAIRFIELD LOCAL SCHOOL DISTRICT  
HIGHLAND COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Fairfield Local School District  
Highland County  
11611 S.R. 771  
Leesburg, Ohio 45135

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof, 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 22, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

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

**Betty Montgomery**  
Auditor of State

February 22, 2005

**Fairfield Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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As management of the Fairfield Local School District, we offer readers of the Fairfield Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

**Financial Highlights**

- The assets of the School District exceeded its liabilities at June 30, 2004 by \$17,227,490. Of this amount, \$124,420 may be used to meet any of the School District's ongoing financial obligations.
- In total, net assets decreased by \$364,550 during fiscal 2004.
- General revenues accounted for \$5,839,840 or 84 percent of all revenues. Program specific revenues in the form of charges for services and operating grants, capital grants, and contributions accounted for \$1,123,718 or 16 percent of total revenues of \$6,963,558.
- The School District had \$7,328,108 in expenses; \$1,123,718 of these expenses were offset by program specific charges for services and operating grants and contributions.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, or an entire operating entity.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column.

**Reporting the Fairfield Local School District as a Whole**

The Statement of Net Assets and the Statements of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2004. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Fairfield Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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These two statements report net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

All of the School District's programs and services provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

## **Reporting the Fairfield Local School District's Most Significant Funds**

### **Fund Financial Statements**

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds which are the General Fund and Debt Service Fund.

**Governmental Funds** - All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statements of Activities) and governmental funds is reconciled in the financial statements.

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



***Fairfield Local School District***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for 2004 and 2003:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$2,824,759	\$2,926,452
Capital Assets, Net	18,803,494	19,363,117
Total Assets	21,628,253	22,289,569
Liabilities		
Long-Term Liabilities	(2,477,567)	(2,606,398)
Other Liabilities	(1,923,196)	(2,091,131)
Total Liabilities	(4,400,763)	(4,697,529)
Net Assets		
Invested in Capital Assets, Net of Related Debt	16,453,494	16,873,117
Restricted	649,576	580,583
Unrestricted	124,420	138,340
Total Net Assets	\$17,227,490	\$17,592,040

Table 1 is a comparison of governmental activities as of June 30, 2004 and 2003. Total net assets decreased primarily due to a decrease in invested in capital assets (net of related debt issued to acquire the assets). Acquisitions in the amount of \$144,606 were not enough to cover depreciation of \$702,965. Capital assets are used to provide services to students and do not represent assets that may be used for future spending. Restricted net assets increased due to several new grants received during the year. Unrestricted net assets decreased due to an increase in the compensated absences liability.

Table 2 shows the changes in net assets for fiscal year 2004 and 2003.

**Fairfield Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

(Table 2)  
**Change in Net Assets**

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$461,473	\$387,152
Operating Grants and Contributions	640,620	556,390
Capital Grants and Contributions	21,625	11,781
Total Program Revenues	1,123,718	955,323
General Revenues:		
Property Taxes	1,454,651	1,368,494
Grants and Entitlements not Restricted to Specific Programs	4,267,855	3,664,732
Gifts and Donations	1,800	1,440
Investment Earnings	8,514	16,390
Miscellaneous	107,020	176,095
Total General Revenues	5,839,840	5,227,151
Total Revenues	6,963,558	6,182,474
Program Expenses		
Instruction		
Regular	2,965,785	2,885,361
Special	477,980	435,722
Vocational	202,012	217,235
Support Services		
Pupils	260,203	224,510
Instructional Staff	639,112	617,205
Board of Education	8,632	27,711
Administration	729,855	719,003
Fiscal	320,091	300,909
Business	38,526	41,333
Operation and Maintenance of Plant	649,632	641,521
Pupil Transportation	461,717	404,941
Central	14,264	19,470
Operation of Non-Instructional Services:		
Other	4,117	3,660
Food Services	297,639	240,469
Extracurricular Activities	135,085	195,126
Interest and Fiscal Charges	123,458	134,124
Total Expenses	7,328,108	7,108,300
Decrease in Net Assets	(\$364,550)	(\$925,826)

Property tax revenue increased due to additional amounts available for advance at June 30, 2004. Grants and Entitlements revenue increased due to additional grants received in 2004. Regular Instruction increased due to the purchase of new textbooks. Food Service expenditures increased due to increase in depreciation of capital assets. Extracurricular Activities expenditures decreased due to large number of deletions and depreciation in prior year.

**Fairfield Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

The Statement of Activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)

	Total Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
Instruction	\$3,645,777	\$3,538,318	\$2,972,142	\$2,959,856
Support Services	3,122,032	2,996,603	2,968,393	2,855,507
Operation of Non-Instructional Services	301,756	244,129	64,722	63,157
Extracurricular Activities	135,085	195,126	75,675	140,333
Interest and Fiscal Charges	123,458	134,124	123,458	134,124
Total Expenses	<u>\$7,328,108</u>	<u>\$7,108,300</u>	<u>\$6,204,390</u>	<u>\$6,152,977</u>

**The School District's Funds**

Information about the School District's major funds starts on page 10. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$6,997,770 and expenditures of \$6,896,325.

The fund balance in the General Fund increased \$11,296. The School District experienced an increase in enrollment of 66 students, some of which were open enrollment students. This provided the School District with additional revenues in tuition and fees and intergovernmental revenues. The School District also monitored expenditures during the year and did not incur some of the big expenditures they had in the prior year. Most notably, the School District did not have any new bus purchases during the year whereas in the prior year they had purchased two.

The fund balance in the Debt Service Fund increased \$55,985. The District experienced an increase in property taxes and intergovernmental revenues. At the same time, the District expended more in principal payments during the year.

***Fairfield Local School District***  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2004  
 Unaudited

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**General Fund - Budget Highlights**

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$1,597 less than the final budgeted amount for the General Fund. Actual revenues for intergovernmental and tuition and fees were \$275,258 above original budgeted revenues. This was mainly due to the increase in enrollment. Original budgeted expenditures were \$77,594 less than actual expenditures. These differences represent cyclical changes that occur throughout the year and are not known at the time the original budgets are prepared.

**Capital Assets**

At the end of fiscal year 2004 the School District had \$18,803,494 invested in capital assets.

(Table 4)  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$399,200	\$399,200
Land Improvements	561,332	535,377
Buildings and Improvements	16,656,887	17,077,425
Furniture, Fixtures and Equipment	1,049,027	1,182,735
Vehicles	137,048	168,380
Totals	\$18,803,494	\$19,363,117

For more information on capital assets, see Note 7 to the basic financial statements.

**Fairfield Local School District**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2004  
 Unaudited

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**Debt**

At June 30, 2004, the School District had \$2,350,000 in bonds outstanding, with \$85,000 due within one year. Table 5 summarizes bonds outstanding:

(Table 5)

	2004	2003
General Obligation Bonds:		
1981 11.25% School Improvement Bonds	\$0	\$55,000
1999 5.06% School Improvement Bonds	820,000	850,000
1999 5.04% School Improvement Bonds	1,530,000	1,585,000
Total	\$2,350,000	\$2,490,000

The School District's overall legal debt margin was \$3,083,264 with an unvoted debt margin of \$55,046 at June 30, 2004.

For more information on debt, refer to the note 12 to the basic financial statements.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Martha Kinzer, Treasurer, Fairfield Local School District, 11611 S.R. 771, Leesburg, Ohio, 45135.

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**Fairfield Local School District**

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,400,336
Prepaid Items	7,910
Materials and Supplies Inventory	26,040
Intergovernmental Receivable	22,774
Taxes Receivable	1,357,699
Cash and Cash Equivalents With Fiscal Agents	10,000
Capital Assets:	
Land	399,200
Depreciable Capital Assets, Net	<u>18,404,294</u>
<i>Total Assets</i>	<u>21,628,253</u>
<b>Liabilities</b>	
Accounts Payable	\$71,114
Accrued Wages and Benefits	488,532
Intergovernmental Payable	162,443
Deferred Revenue	1,181,491
Matured Bonds Payable	10,000
Accrued Interest Payable	9,616
Long-Term Liabilities:	
Due Within One Year	120,049
Due in More Than One Year	<u>2,357,518</u>
<i>Total Liabilities</i>	<u>4,400,763</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	16,453,494
Restricted for:	
Capital Projects	4,207
Debt Service	478,127
Other Purposes	167,242
Unrestricted	<u>124,420</u>
<i>Total Net Assets</i>	<u><u>\$17,227,490</u></u>

See Accompanying Notes to the Basic Financial Statements

**Fairfield Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$2,965,785	\$254,242	\$73,807	\$18,700	(\$2,619,036)
Special	477,980	0	255,552	0	(222,428)
Vocational	202,012	0	71,334	0	(130,678)
Support Services:					
Pupils	260,203	0	1,751	0	(258,452)
Instructional Staff	639,112	0	117,491	2,925	(518,696)
Board of Education	8,632	0	0	0	(8,632)
Administration	729,855	0	0	0	(729,855)
Fiscal	320,091	0	0	0	(320,091)
Business	38,526	4,579	14,142	0	(19,805)
Operation and Maintenance of Plant	649,632	2,528	0	0	(647,104)
Pupil Transportation	461,717	0	5,223	0	(456,494)
Central	14,264	0	5,000	0	(9,264)
Operation of Non-Instructional Services:					
Other	4,117	6	0	0	(4,111)
Food Services	297,639	145,608	91,420	0	(60,611)
Extracurricular Activities	135,085	54,510	4,900	0	(75,675)
Interest and Fiscal Charges	123,458	0	0	0	(123,458)
<b>Total Governmental Activities</b>	<b>\$7,328,108</b>	<b>\$461,473</b>	<b>\$640,620</b>	<b>\$21,625</b>	<b>(6,204,390)</b>
General Revenues:					
Property Taxes Levied for:					
General Purposes					1,146,622
Debt Service					281,614
Capital Outlay					26,415
Grants and Entitlements not					
Restricted to Specific Programs					4,267,855
Gifts and Donations					1,800
Investment Earnings					8,514
Miscellaneous					107,020
<b>Total General Revenues</b>					<b>5,839,840</b>
Change in Net Assets					(364,550)
Net Assets Beginning of Year					17,592,040
Net Assets End of Year					<u>\$17,227,490</u>

See Accompanying Notes to the Basic Financial Statements



**Fairfield Local School District**

Balance Sheet  
Governmental Funds  
June 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$676,408	\$452,932	\$234,963	\$1,364,303
Cash and Cash Equivalents with Fiscal Agents	0	10,000	0	10,000
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	36,033	0	0	36,033
Receivables:				
Taxes	1,114,293	217,915	25,491	1,357,699
Intergovernmental	0	0	22,774	22,774
Interfund Receivable	97,000	0	0	97,000
Prepaid Items	7,910	0	0	7,910
Materials and Supplies Inventory	13,286	0	12,754	26,040
Total Assets	<u>\$1,944,930</u>	<u>\$680,847</u>	<u>\$295,982</u>	<u>\$2,921,759</u>
<b>Liabilities</b>				
Accounts Payable	\$69,124	\$0	\$1,990	\$71,114
Accrued Wages and Benefits	461,416	0	27,116	488,532
Interfund Payable	0	0	97,000	97,000
Intergovernmental Payable	95,032	0	1,634	96,666
Deferred Revenue	1,011,616	191,752	23,038	1,226,406
Matured Bonds Payable	0	10,000	0	10,000
Total Liabilities	<u>1,637,188</u>	<u>201,752</u>	<u>150,778</u>	<u>1,989,718</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	5,536	0	12,334	17,870
Reserved for Property Taxes	102,677	26,163	2,453	131,293
Reserved for Bus Purchases	36,033	0	0	36,033
Unreserved:				
Undesignated, Reported in:				
General Fund	163,496	0	0	163,496
Special Revenue Funds	0	0	126,342	126,342
Debt Service Funds	0	452,932	0	452,932
Capital Projects Funds	0	0	4,075	4,075
Total Fund Balances	<u>307,742</u>	<u>479,095</u>	<u>145,204</u>	<u>932,041</u>
Total Liabilities and Fund Balances	<u>\$1,944,930</u>	<u>\$680,847</u>	<u>\$295,982</u>	<u>\$2,921,759</u>

See Accompanying Notes to the Basic Financial Statements

**Fairfield Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004

<b>Total Governmental Fund Balances</b>		\$932,041
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital assets	22,888,707	
Accumulated depreciation	<u>(4,085,213)</u>	
Total capital assets		18,803,494
 Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Taxes		44,915
 Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		
		(65,777)
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable	(2,350,000)	
Accrued interest on bonds	(9,616)	
Compensated absences	<u>(127,567)</u>	
		<u>(2,487,183)</u>
 <b>Net Assets of Governmental Activities</b>		 <u><u>\$17,227,490</u></u>

See Accompanying Notes to the Basic Financial Statements

**Fairfield Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property Taxes	\$1,147,112	\$282,559	\$26,493	\$1,456,164
Intergovernmental	4,450,069	30,993	462,695	4,943,757
Interest	8,500	0	14	8,514
Tuition and Fees	254,242	0	5,558	259,800
Extracurricular Activities	0	0	53,537	53,537
Customer Services	0	0	145,608	145,608
Rent	2,528	0	0	2,528
Gifts and Donations	800	0	17,720	18,520
Miscellaneous	86,277	14,778	8,287	109,342
<b>Total Revenues</b>	<b>5,949,528</b>	<b>328,330</b>	<b>719,912</b>	<b>6,997,770</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,637,198	0	100,699	2,737,897
Special	352,815	0	99,429	452,244
Vocational	187,408	0	7,037	194,445
Support Services:				
Pupils	236,510	0	2,001	238,511
Instructional Staff	394,784	0	113,294	508,078
Board of Education	8,632	0	0	8,632
Administration	667,696	0	0	667,696
Fiscal	295,903	9,508	1,107	306,518
Business	11,452	0	27,074	38,526
Operation and Maintenance of Plant	570,558	0	15,261	585,819
Pupil Transportation	411,049	0	0	411,049
Central	11,597	0	5,000	16,597
Operation of Non-Instructional Services:				
Other	4,111	0	6	4,117
Food Service	0	0	254,854	254,854
Extracurricular Activities	76,924	0	57,103	134,027
Capital Outlay	70,188	0	2,883	73,071
Debt Service:				
Principal	0	140,000	0	140,000
Interest and Fiscal Charges	0	124,244	0	124,244
<b>Total Expenditures</b>	<b>5,936,825</b>	<b>273,752</b>	<b>685,748</b>	<b>6,896,325</b>
Excess of Revenue Over Expenditures	12,703	54,578	34,164	101,445
<b>Other Financing Sources (Uses):</b>				
Transfer-In	0	1,407	0	1,407
Transfer-Out	(1,407)	0	0	(1,407)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,407)</b>	<b>1,407</b>	<b>0</b>	<b>0</b>
Net Change in Fund Balances	11,296	55,985	34,164	101,445
Fund Balance at Beginning of Year	296,446	423,110	111,040	830,596
Fund Balance at End of Year	<u>\$307,742</u>	<u>\$479,095</u>	<u>\$145,204</u>	<u>\$932,041</u>

See Accompanying Notes to the Basic Financial Statements

**Fairfield Local School District**  
 Reconciliation of the Change in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2004

**Net Change in Fund Balances - Total Governmental Funds** \$101,445

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed asset additions	144,606	
Depreciation expense	<u>(702,965)</u>	
Excess of capital outlay under depreciation expense		(558,359)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Loss on Disposal of Capital Assets		(1,264)
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Because, some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes	(1,513)	
Intergovernmental	<u>(32,699)</u>	
		(34,212)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Bond principal retirement		140,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	786	
Increase in compensated absences	(11,169)	
Increase in intergovernmental payable	<u>(1,777)</u>	
Total additional expenditures		<u>(12,160)</u>

**Change in Net Assets of Governmental Activities** (\$364,550)

See Accompanying Notes to the Basic Financial Statements

**Fairfield Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$1,380,060	\$1,126,961	\$1,126,961	\$0
Intergovernmental	4,189,685	4,450,069	4,450,069	0
Interest	8,003	8,500	8,500	0
Tuition and Fees	239,328	254,202	254,242	40
Rent	2,380	2,528	2,528	0
Gifts and Donations	753	800	800	0
Miscellaneous	77,902	82,743	82,743	0
<b>Total Revenues</b>	<b>5,898,111</b>	<b>5,925,803</b>	<b>5,925,843</b>	<b>40</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,622,832	2,635,469	2,628,622	6,847
Special	341,910	347,703	349,554	(1,851)
Vocational	221,592	222,251	222,444	(193)
Support Services:				
Pupils	228,350	233,852	234,379	(527)
Instructional Staff	369,817	375,372	384,087	(8,715)
Board of Education	11,511	9,783	23,932	(14,149)
Administration	653,153	669,943	667,153	2,790
Fiscal	294,301	301,494	296,346	5,148
Business	11,163	11,452	11,452	0
Operation and Maintenance of Plant	553,714	565,145	554,147	10,998
Pupil Transportation	417,985	427,140	428,854	(1,714)
Central	13,572	13,924	13,924	0
Operation of Non-Instructional Services	4,007	4,111	4,111	0
Extracurricular Activities	75,372	77,324	76,924	400
Capital Outlay	70,764	71,037	71,708	(671)
<b>Total Expenditures</b>	<b>5,890,043</b>	<b>5,966,000</b>	<b>5,967,637</b>	<b>(1,637)</b>
Excess of Revenues Over (Under) Expenditures	8,068	(40,197)	(41,794)	(1,597)
<b>Other Financing Sources (Uses):</b>				
Transfers-In	0	385,000	0	(385,000)
Advances-In	0	14,509	14,509	0
Refund of Prior Year Expenditures	0	3,534	3,534	0
Transfers-Out	0	(386,407)	(1,407)	385,000
Advances Out	0	(50,000)	(50,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>(33,364)</b>	<b>(33,364)</b>	<b>0</b>
Net Change in Fund Balance	8,068	(73,561)	(75,158)	(1,597)
Fund Balance at Beginning of Year	555,758	555,758	555,758	0
Prior Year Encumbrances Appropriated	157,179	157,179	157,179	0
<b>Fund Balance at End of Year</b>	<b>\$721,005</b>	<b>\$639,376</b>	<b>\$637,779</b>	<b>(\$1,597)</b>

See Accompanying Notes to the Basic Financial Statements

***Fairfield Local School District***  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$38,560	\$18,062
<b>Liabilities</b>		
Undistributed Monies	0	\$18,062
<b>Net Assets</b>		
Held in Trust for Scholarships	\$38,560	

See Accompanying Notes to the Basic Financial Statements

***Fairfield Local School District***  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
	Scholarship
<b>Additions:</b>	
Gifts and Contributions	\$16,000
Interest	596
	16,596
<i>Total Additions</i>	16,596
<b>Deductions:</b>	
Scholarships Awarded	600
	15,996
<i>Change in Net Assets</i>	15,996
<i>Net Assets Beginning of Year</i>	22,564
<i>Net Assets End of Year</i>	\$38,560

See Accompanying Notes to the Basic Financial Statements

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

Fairfield Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The Fairfield Local School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 53 square miles. It is located in Highland and Clinton Counties, and includes all of the Villages of Leesburg and Highland and all of Fairfield Township, portions of Penn and Liberty Townships and a portion of Wayne Township in Clinton County. The School District is staffed by 44 non-certificated employees, 58 certificated teaching personnel and 7 administrative employees who provide services to 911 students and other community members. The School District currently operates 1 instructional building and 1 bus garage.

*Reporting Entity:*

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

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

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

The School District participates in the three jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, the Ohio School Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 13 and 14 of the basic financial statements.

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

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

**A. Basis of Presentation**

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

*Government-wide Financial Statements*

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, 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 School District.

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

*Fund Financial Statements*

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

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. 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 funds of the School District fall within two categories: governmental and fiduciary.

*Governmental Funds*

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

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

*Debt Service Fund* - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and certain other long-term obligations when the School District is obligated for the payment.

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

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

*Fiduciary Funds:*

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

**C. Measurement Focus**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

The private purpose trust fund is reported using the economic resources measurement focus.

**D. Basis of Accounting**

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

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

*Revenues - Exchange and Non-exchange Transactions:*

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

*Deferred Revenue:*

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

*Expenses/Expenditures:*

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

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

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

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits.

During fiscal year 2004, the School District's investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$8,500, which includes \$4,510 assigned from other School District funds.

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

**F. Inventory**

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of purchased food and consumable supplies.

**G. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent unexpended revenues restricted for the purchase of buses.

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

**H. Capital Assets**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets 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 School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, 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	20 - 40 years
Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	8 - 10 years
Vehicles	10 years
Textbooks	5 years

**I. Interfund Balances**

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

**J. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the termination payment 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 School District's past experience of making termination payments.

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

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

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

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

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

**M. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2004.



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

**N. Interfund Transactions**

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

**O. 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.

**P. Budgetary Process**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$11,296
Adjustments:	
Revenue Accruals	(20,151)
Expenditure Accruals	43,850
Encumbrances	(74,662)
Advances	(35,491)
Budget Basis	<u><u>(\$75,158)</u></u>

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 4 - 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School 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.

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 fiscal year-end, the carrying amount of the School District's deposits was \$964,927 and the bank balance was \$1,092,277. Of the bank balance, \$110,013 was covered by federal depository insurance and \$982,264 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

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

STAROhio	Carrying/Fair Value
	\$502,031

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,466,958	\$0
Investments:		
STAROhio	(502,031)	502,031
GASB Statement No. 3	\$964,927	\$502,031

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland and Clinton Counties. The Highland County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - PROPERTY TAXES** (continued)

The amount available as an advance at June 30, 2004 was \$102,677 in the General Fund, \$26,163 in the Debt Service Fund, and \$2,453 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$82,526 in the General Fund, \$22,056 in the Debt Service Fund, and \$2,059 in the Classroom Facilities Maintenance Special Revenue Fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second - Half Collections		2004 First - Half Collections	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Agricultural/Residential and Other Real Estate	\$46,023,510	83.60%	\$46,023,510	83.60%
Public Utility Personal	2,485,920	4.52%	2,485,920	4.52%
Tangible Personal Property	<u>6,536,890</u>	<u>11.88%</u>	<u>6,536,890</u>	<u>11.88%</u>
Total Assessed Value	<u>\$55,046,320</u>	<u>100.00%</u>	<u>\$55,046,320</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.35		\$32.35	

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, intergovernmental grants, and interfund. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Student Reading Intervention	\$5,324
Title I	5,742
Special Education	<u>11,708</u>
Total Intergovernmental Receivables	<u>\$22,774</u>

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at</u> <u>6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>6/30/04</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$399,200	\$0	\$0	\$399,200
Capital Assets Being Depreciated:				
Land Improvements	625,222	62,680	0	687,902
Buildings and Improvements	18,257,658	36,723	0	18,294,381
Furniture, Fixtures and Equipment	1,941,573	45,203	(14,146)	1,972,630
Vehicles	563,719	0	0	563,719
Textbooks	970,875	0	0	970,875
Totals Capital Assets, Being Depreciated	<u>22,359,047</u>	<u>144,606</u>	<u>(14,146)</u>	<u>22,489,507</u>
Less Accumulated Depreciation:				
Land Improvements	(89,845)	(36,725)	0	(126,570)
Building and Improvements	(1,180,233)	(457,261)	0	(1,637,494)
Furniture, Fixtures and Equipment	(758,838)	(177,647)	12,882	(923,603)
Vehicles	(395,339)	(31,332)	0	(426,671)
Textbooks	(970,875)	0	0	(970,875)
Total Accumulated Depreciation	<u>(3,395,130)</u>	<u>(702,965)</u>	<u>12,882</u>	<u>(4,085,213)</u>
Total Capital Assets Being Depreciated, Net	<u>18,963,917</u>	<u>(558,359)</u>	<u>(1,264)</u>	<u>18,404,294</u>
Governmental Activities Capital Assets, Net	<u>\$19,363,117</u>	<u>(\$558,359)</u>	<u>(\$1,264)</u>	<u>\$18,803,494</u>



Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 7 - CAPITAL ASSETS** (continued)

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$253,363
Special	26,496
Vocational	20,369
Support Services:	
Pupils	21,783
Instructional Staff	126,406
Administration	59,436
Fiscal	18,152
Operation and Maintenance of Plant	74,639
Pupil Transportation	50,455
Central	467
Operation of Non-Instructional Services - Food Services	48,803
Extracurricular Activities	2,596
Total Depreciation Expense	<u><u>\$702,965</u></u>

**NOTE 8 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Love Insurance Agency for property insurance and inland marine coverage. Coverage is as follows:

Building and contents (\$1,000 Deductable)	\$19,048,500
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The School District, along with other school districts in Ohio, participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 14).

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 8 - RISK MANAGEMENT** (continued)

Insurance coverage provided includes the following:

Fleet Insurance Coverages	
Combined single Limit Liability	\$1,000,000
Auto Medical Payments	\$5,000
Uninsured Motorist	\$250,000
Comprehensive	ACV
Collision	ACV or cost of repair, whichever is less

This coverage includes the driver education car for a year.

General Liability	
Each Occurrence Limit	\$1,000,000
General Aggregate Limit	\$3,000,000
Excess Liability each occurrence limit	\$2,000,000
Excess Liability aggregate limit	\$2,000,000
Fire Damage Limit (any one fire)	\$500,000
Medical Expense (per person/accident)	\$10,000
Medical Expense (each accident)	\$10,000

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

**B. Workers' Compensation**

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year the School District pays an enrollment fee to the GRP to cover costs of administering the program.

**NOTE 9 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$90,220, \$91,537 and \$48,738 respectively; 49.19 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**B. State Teachers Retirement System of Ohio**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

**NOTE 9 - PENSION PLANS** (continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$352,053, \$350,707, and \$192,488, respectively; 82.30 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$206 made by the School District and \$273 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, four of the School District's members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$27,081 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year-ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$67,447.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 11 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. The classified employees working twelve months of the year earn ten to twenty days of vacation per fiscal year, depending upon length of service. The Superintendent and Treasurer earn thirty days of vacation per fiscal year. Accumulated, unused vacation time is paid to classified employees and the Superintendent and Treasurer upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel except the Superintendent and Treasurer who may accrue up to 240 days maximum. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 35 days for all personnel except the Superintendent and Treasurer who will be paid at 50 percent of accrued but unused sick leave up to a maximum of 100 days.

**B. Health Care Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem Life Insurance Company of Indiana at the expense of the Board of Education. The School District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. Dental insurance is provided by Coresource, Inc. The School District provides vision insurance to all employees through Vision Service Plan. The cost of health insurance premiums are shared by the employees and the Board of Education as provided in the negotiated master agreement. The cost of dental and vision premiums is completely paid by the Board of Education.

**C. Retirement Incentive**

An employee who retires within the duration of the contract year period 1, 2002, through June 30, 2005, will receive a retirement incentive bonus using the following formula:

One-half percent (.005) of the employee's average total compensation the last three full years of his/her employment in the School District.

The average is then multiplied by (X), where (X) equals the number of complete years of service in the Fairfield Local School District.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 11 - EMPLOYEE BENEFITS** (continued)

The following restrictions apply to this incentive:

1. The employee must be eligible for and taking initial regular retirement under either STRS or SERS. (Persons previously retired under STRS or SERS are ineligible.)
2. This incentive expires on June 30, 2005.
3. Retirement date must be during this contract term.
4. The employee must give the Board of Education a minimum of ninety (90) days written notice of his/her intent to retire.
5. An employee who retires during the school year receives no partial credit for that year in terms of bonus calculation; the bonus will be based on the last three complete years of service.
6. Compensation upon which the bonus is calculated includes all payments made to the employee from which retirement has been withheld.

The retirement incentive bonus is paid within thirty days of the actual retirement date, provided written evidence of actual retirement (such as a copy of a retirement check or its stub) has been provided to the Treasurer.

**D. Attendance Incentive**

Bonus checks are issued to employees who have perfect or excellent attendance in any full work year (July 1 – June 30). Bonuses are paid as follows:

Certified Employees – Employees who use fewer than three personal days and/or three sick days will be paid \$70 for each of those unused days to a maximum of six days and \$420.

Classified Employees – Employees who use fewer than three personal days and/or three sick days in any school year will be paid \$35 for each of those unused days to a maximum of six days and \$210.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 11 - EMPLOYEE BENEFITS** (continued)

Other conditions:

1. Any use of unpaid leave or “docked” days disqualifies the employee from any bonus.
2. Payment will be made on a separate check on August 1 of each year.
3. No STRS or SERS will be withheld. However, all taxes apply and will be withheld.
4. This program expires June 30, 2005.

**NOTE 12 - LONG-TERM OBLIGATIONS**

The changes in the School District’s long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
<i>Governmental Activities:</i>					
School Improvement Bonds 1981 11.25%	\$55,000	\$0	\$55,000	\$0	\$0
School Improvement Bonds 1999 5.06%	850,000	0	30,000	820,000	30,000
School Improvement Bonds 1999 5.04%	1,585,000	0	55,000	1,530,000	55,000
Compensated Absences	116,398	41,257	30,088	127,567	35,049
Total Governmental Activities Long-Term Obligations	<u>\$2,606,398</u>	<u>\$41,257</u>	<u>\$170,088</u>	<u>\$2,477,567</u>	<u>\$120,049</u>



Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 12 – LONG-TERM OBLIGATIONS** (continued)

School Improvement Bonds 1981

The School District issued \$1,150,000 in voted general obligation bonds for the purpose of making improvements to the School District's facilities. The bonds were issued for a twenty-three year period and matured on December 1, 2003.

School Improvement Bonds 1999

The School District issued \$950,000 in voted general obligation bonds for the purpose of constructing a bus garage, administration office, vocational agricultural facility and athletic fields. The bonds were issued for a twenty-three year period with final maturity on December 1, 2021.

School Improvement Bonds 1999

The School District issued \$1,774,000 in voted general obligation bonds for the purpose of constructing a K-12 facility. The bonds were issued for twenty-three years, with final maturity on December 1, 2021.

The general obligation bonds will be paid from property tax revenues received in the Debt Service Fund. Compensated absences will be paid from the General and Food Service Funds.

The School District's overall legal debt margin was \$3,083,264 with an unvoted debt margin of \$55,046 at June 30, 2004.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$85,000	\$117,516	\$202,516
2006	85,000	113,776	198,776
2007	90,000	109,838	199,838
2008	100,000	105,465	205,465
2009	100,000	100,765	200,765
2010 - 2014	585,000	422,553	1,007,553
2015 - 2019	750,000	250,509	1,000,509
2020 - 2022	555,000	45,334	600,334
Total	<u>\$2,350,000</u>	<u>\$1,265,756</u>	<u>\$3,615,756</u>

**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS**

**A. South Central Ohio Computer Association (SCOCA)**

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$55,450 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

**B. Hopewell Special Education Regional Resource Center (Hopewell)**

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio, 45177.

**C. Great Oaks Institute of Technology and Career Development**

The Great Oaks Institute of Technology and Career Development is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the School District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, Ohio, 45241-1581.

**NOTE 14 - INSURANCE PURCHASING POOL**

**A. Ohio School Plan**

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

**B. Ohio School Boards Association Workers' Compensation Group Rating Plan**

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

**NOTE 15 – STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding 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 School 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 Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2003	(\$301,067)	\$0
Current Year Set-aside Requirement	116,420	116,420
Current Year Offsets	0	(326,432)
Qualifying Disbursements	<u>(227,591)</u>	<u>(150,279)</u>
Set-aside Balance Carried Forward to Future Years	<u>(\$412,238)</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

**NOTE 17 – ACCOUNTABILITY**

At June 30, 2004, the Food Service Special Revenue Fund had a deficit fund balance of \$61,410. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 18 – INTERFUND ACTIVITY**

**A. Interfund Transfers**

Transfers made during the year-ended June 30, 2004, were as follows:

		<u>Transfer From General Fund</u>
Transfer To	Debt Service Fund	\$1,407

Transfers were made to make annual loan debt service payments.

**B. Interfund Receivables/Payables**

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

		<u>Receivable General Fund</u>
Payable	All Other Nonmajor Governmental Funds	\$97,000

The amounts due to the General Fund are the result of the School District moving unrestricted balances to support programs and projects accounted for in the other funds. The General Fund will be reimbursed when funds become available in the funds.

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

The School District is not party to any legal proceeding.

Fairfield Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2004, the School District has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units.” This Statement further defines the guidelines of GASB Statement No. 14, “The Financial Reporting Entity.” The implementation of this new statement has no effect on the School District’s financial statements for fiscal year 2004.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Fairfield Local School District  
Highland County  
11611 S.R. 771  
Leesburg, Ohio 45135

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fairfield Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Fairfield Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 opinion 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 22, 2005.

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

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

**Betty Montgomery**  
Auditor of State

February 22, 2005





**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**FAIRFIELD LOCAL SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 10, 2005**