



**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Fairlawn Local School District
Shelby County
18800 Johnston Road
Sidney, Ohio 45365

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Fairlawn Local School District, Shelby County, (the School District) as of and for the years ended June 30, 2000 and 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairlawn Local School District, Shelby County, as of June 30, 2000 and 1999 and the results of its operations and the cash flows of its enterprise fund for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2000 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Jim Petro
Auditor of State

December 18, 2000

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FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits</u>				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$670,721	\$52,741	\$254,246	\$14,727
Cash with Fiscal and Escrow Agents	0	4,821	1,663	0
Receivables:				
Taxes	992,597	0	69,439	0
Accounts	2,179	0	0	0
Intergovernmental	0	6,876	0	0
Accrued Interest	806	0	0	0
Intefund Receivable	5,000	0	0	0
Materials and Supplies Inventory	9,461	0	0	0
Inventory Held for Resale	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	111,013	0	0	0
Fixed Assets, (Net where applicable of Accumulated Depreciation)	0	0	0	0
Total Assets	1,791,777	64,438	325,348	14,727
<u>Other Debits</u>				
Amount Available in Debt Service Fund for				
Retirement of General Long-Term Debt	0	0	0	0
Amount to be Provided for Retirement of				
General Long-Term Debt	0	0	0	0
Liabilities				
Accounts Payable	5,866	0	0	0
Accrued Wages and Benefits	203,745	5,136	0	0
Interfund Payable	0	5,000	0	0
Compensated Absences Payable	12,793	0	0	0
Intergovernmental Payable	60,741	628	0	0
Deferred Revenue	877,379	0	64,759	0
Due to Students	0	0	0	0
Matured Interest Payable	0	0	1,663	0
Energy Conservation Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	1,160,524	10,764	66,422	0
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	63,396	477	0	0
Reserved for Inventory	9,461	0	0	0
Reserved for Textbook/Instructional	8,837	0	0	0
Reserved for Budget Stabilization	40,769	0	0	0
Reserved for Property Taxes	39,044	0	4,680	0
Reserved for Bus Purchase	60,496	0	0	0
Reserved for Capital Improvement	911	0	0	0
Unreserved:				
Undesignated	408,339	53,197	254,246	14,727
Total Fund Equity and Other Credits	631,253	53,674	258,926	14,727
Total Liabilities, Fund Equity, and Other Credits	\$1,791,777	\$64,438	\$325,348	\$14,727

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$17,557	\$28,702	\$0	\$0	\$1,038,694
0	0	0	0	6,484
0	0	0	0	1,062,036
0	0	0	0	2,179
97	0	0	0	6,973
0	0	0	0	806
0	0	0	0	5,000
118	0	0	0	9,579
2,700	0	0	0	2,700
0	0	0	0	111,013
2,237	0	3,108,285	0	3,110,522
0	0	0	258,926	258,926
0	0	0	141,038	141,038
<u>22,709</u>	<u>28,702</u>	<u>3,108,285</u>	<u>399,964</u>	<u>5,755,950</u>
0	30	0	0	5,896
2,957	0	0	0	211,838
0	0	0	0	5,000
1,671	0	0	120,482	134,946
3,138	0	0	21,082	85,589
2,508	0	0	0	944,646
0	27,172	0	0	27,172
0	0	0	0	1,663
0	0	0	13,400	13,400
0	0	0	245,000	245,000
<u>10,274</u>	<u>27,202</u>	<u>0</u>	<u>399,964</u>	<u>1,675,150</u>
0	0	3,108,285	0	3,108,285
12,435	0	0	0	12,435
0	0	0	0	63,873
0	0	0	0	9,461
0	0	0	0	8,837
0	0	0	0	40,769
0	0	0	0	43,724
0	0	0	0	60,496
0	0	0	0	911
0	1,500	0	0	732,009
12,435	1,500	3,108,285	0	4,080,800
<u>\$22,709</u>	<u>\$28,702</u>	<u>\$3,108,285</u>	<u>\$399,964</u>	<u>\$5,755,950</u>

FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	Expendable Trust	
Revenues:						
Property Taxes	\$830,233	\$0	\$94,934	\$0	\$0	\$925,167
Income Taxes	256,911	0	0	0	0	256,911
Intergovernmental	1,542,324	112,321	8,828	158,416	0	1,821,889
Interest	72,648	0	0	0	0	72,648
Tuition and Fees	269,333	0	0	0	0	269,333
Rent	80	0	0	0	0	80
Extracurricular Activities	0	30,864	0	0	0	30,864
Gifts & Donation	0	0	0	0	500	500
Miscellaneous	4,963	1,208	0	0	1,000	7,171
Total Revenues	<u>2,976,492</u>	<u>144,393</u>	<u>103,762</u>	<u>158,416</u>	<u>1,500</u>	<u>3,384,563</u>
Expenditures:						
Current:						
Instruction:						
Regular	1,350,059	13,127	0	41,678	0	1,404,864
Special	214,288	53,511	0	0	0	267,799
Adult/Continuing	5,543	0	0	0	0	5,543
Other	9,916	0	0	0	0	9,916
Support Services:						
Pupils	104,962	22,638	0	0	0	127,600
Instructional Staff	134,037	9,802	0	0	0	143,839
Board of Education	8,124	0	0	0	500	8,624
Administration	322,708	0	0	0	0	322,708
Fiscal	126,054	748	2,043	0	0	128,845
Operation and Maintenance of Plant	282,720	795	0	0	0	283,515
Pupil Transportation	260,578	0	0	0	0	260,578
Business	5,822	0	0	0	0	5,822
Operation of Non-Instructional Services	0	0	0	0	0	0
Extracurricular Activities	79,157	20,022	0	0	0	99,179
Capital Outlay	9,114	0	0	154,102	0	163,216
Debt Service:						
Principal Retirement	6,700	0	40,000	0	0	46,700
Interest and Fiscal Charges	1,196	0	25,175	0	0	26,371
Total Expenditures	<u>2,920,978</u>	<u>120,643</u>	<u>67,218</u>	<u>195,780</u>	<u>500</u>	<u>3,305,119</u>
Excess of Revenues Over (Under) Expenditures	<u>55,514</u>	<u>23,750</u>	<u>36,544</u>	<u>(37,364)</u>	<u>1,000</u>	<u>79,444</u>
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	2,320	0	0	0	0	2,320
Refund of Prior Year Expenditures	5,047	0	0	4,392	0	9,439
Total Other Financing Sources (Uses)	<u>7,367</u>	<u>0</u>	<u>0</u>	<u>4,392</u>	<u>0</u>	<u>11,759</u>
Excess of Revenues and Other Financing Sources Over/Under Expenditures and Other Financing Uses	62,881	23,750	36,544	(32,972)	1,000	91,203
Fund Balances at Beginning of Year	568,372	29,924	222,382	47,699	500	868,877
Fund Balances at End of Year	<u>\$631,253</u>	<u>\$53,674</u>	<u>\$258,926</u>	<u>\$14,727</u>	<u>\$1,500</u>	<u>\$960,080</u>

See Accompanying Notes to the General Purpose Financial Statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$783,350	\$824,821	\$41,471	\$0	\$0	\$0
Income Taxes	252,000	253,873	1,873	0	0	0
Intergovernmental	1,548,530	1,542,074	(6,456)	79,045	79,996	951
Interest	50,000	77,158	27,158	0	0	0
Tuition and Fees	196,100	268,981	72,881	0	0	0
Rent	0	80	80	0	0	0
Extracurricular Activities	0	0	0	29,550	30,864	1,314
Gifts & Donations	0	0	0	0	0	0
Miscellaneous	7,000	7,497	497	1,200	1,208	8
Total Revenues	2,836,980	2,974,484	137,504	109,795	112,068	2,273
Expenditures:						
Current:						
Instruction:						
Regular	1,378,092	1,349,589	28,503	33,457	13,454	20,003
Special	208,480	203,186	5,294	37,602	35,025	2,577
Adult/Continuing	5,000	4,960	40	0	0	0
Other	12,000	11,241	759	0	0	0
Support Services:						
Pupils	111,962	106,081	5,881	23,831	20,078	3,753
Instructional Staff	130,425	123,274	7,151	2,882	5,549	(2,667)
Board of Education	9,640	8,245	1,395	0	0	0
Administration	360,086	347,601	12,485	0	0	0
Fiscal	128,170	123,417	4,753	115	865	(750)
Operation and Maintenance of Plant	281,475	281,959	(484)	1,460	795	665
Pupil Transportation	317,600	313,870	3,730	0	0	0
Business	6,900	6,393	507	0	0	0
Extracurricular Activities	80,494	79,106	1,388	24,690	20,022	4,668
Capital Outlay	9,114	9,114	0	0	0	0
Debt Service:						
Principal Retirement	6,700	6,700	0	0	0	0
Interest and Fiscal Charges	1,400	1,196	204	0	0	0
Total Expenditures	3,047,538	2,975,932	71,606	124,037	95,788	28,249
Excess of Revenues Over (Under) Expenditures	(210,558)	(1,448)	209,110	(14,242)	16,280	30,522
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	500	2,320	1,820	0	0	0
Refund of Prior Year Expenditures	2,200	3,156	956	0	0	0
Advances - In	0	41,200	41,200	0	5,000	5,000
Advances - Out	0	(5,000)	(5,000)	0	0	0
Total Other Financing Sources (Uses)	2,700	41,676	38,976	0	5,000	5,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(207,858)	40,228	248,086	(14,242)	21,280	35,522
Fund Balances at Beginning of Year	655,616	655,616	0	31,134	31,134	0
Prior Year Encumbrances Appropriated	21,494	21,494	0	150	150	0
Fund Balances at End of Year	\$469,252	\$717,338	\$248,086	\$17,042	\$52,564	\$35,522

See Accompanying Notes to the General Purpose Financial Statements

Debt Service			Capital Project			Expendable Trust		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$92,118	\$94,210	\$2,092	\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0	0	0	0
7,900	8,828	928	158,000	158,416	416	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	500	500	0
0	0	0	0	0	0	1,000	1,000	0
<u>100,018</u>	<u>103,038</u>	<u>3,020</u>	<u>158,000</u>	<u>158,416</u>	<u>416</u>	<u>1,500</u>	<u>1,500</u>	<u>0</u>
0	0	0	46,452	41,753	4,699	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	500	500	0
0	0	0	0	0	0	0	0	0
2,100	2,043	57	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	202,854	182,936	19,918	0	0	0
40,000	40,000	0	0	0	0	0	0	0
25,175	25,175	0	0	0	0	0	0	0
<u>67,275</u>	<u>67,218</u>	<u>57</u>	<u>249,306</u>	<u>224,689</u>	<u>24,617</u>	<u>500</u>	<u>500</u>	<u>0</u>
32,743	35,820	3,077	(91,306)	(66,273)	25,033	1,000	1,000	0
0	0	0	0	0	0	0	0	0
0	0	0	4,300	4,392	92	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	(41,200)	(41,200)	0	0	0
0	0	0	4,300	(36,808)	(41,108)	0	0	0
32,743	35,820	3,077	(87,006)	(103,081)	(16,075)	1,000	1,000	0
218,426	218,426	0	39,735	39,735	0	500	500	0
0	0	0	77,997	77,997	0	0	0	0
<u>\$251,169</u>	<u>\$254,246</u>	<u>\$3,077</u>	<u>\$30,726</u>	<u>\$14,651</u>	<u>(\$16,075)</u>	<u>\$1,500</u>	<u>\$1,500</u>	<u>\$0</u>

FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Operating Revenues:

Sales \$78,249

Operating Expenses:

Salaries and Wages 18,251

Fringe Benefits 11,092

Purchased Services 44,661

Materials and Supplies 430

Cost of Sales 30,033

Depreciation 107

Total Operating Expenses 104,574

Operating Loss (26,325)

Non-Operating Revenues:

Federal Donated Commodities 10,030

Interest 875

Federal and State Subsidies 22,073

Total Non-Operating Revenues 32,978

Net Income 6,653

Retained Earnings (Deficit) at Beginning of Year 5,782

Retained Earnings at End of Year \$12,435

See Accompanying Notes to the General Purpose Financial Statements

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	ENTERPRISE
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$78,249
Cash Payments to Employee for Services	(19,848)
Cash Payments for Employee Benefits	(9,746)
Cash Payments to Suppliers for Goods and Services	(64,821)
Net Cash Used in Operating Activities	(16,166)
 Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	21,976
 Cash Flows from Capital and Related Financing Activities:	
Acquisition of Fixed Assets	(734)
 Cash Flows from Investing Activities	
Interest	875
 Net Decrease in Cash and Cash Equivalents	5,951
 Cash and Cash Equivalents Beginning of Year	11,606
 Cash and Cash Equivalents End of Year	\$17,557
 <u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</u>	
Operating Loss	(\$26,325)
 Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	107
Donated Commodities Received	10,030
Changes in Assets and Liabilities:	
(Increase)Decrease in Accounts Receivable	254
(Increase)Decrease in Materials and Supplies Inventory	(37)
(Increase)Decrease in Inventory Held for Resale	56
Increase(Decrease) in Accrued Salaries Payable	70
Increase(Decrease) in Intergovernmental Payable	(325)
Increase (Decrease) in Compensated Absences Payable	4
Net Cash Used in Operating Activities	(\$16,166)

See Accompanying Notes to the General Purpose Financial Statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Fairlawn Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Fairlawn Local School District operates under a locally elected Board form of government and provides educational services as authorized by State and/or federal agencies. This Board controls the School District's two instructional/support facilities staffed by 24 non-certificated employees, 38 certificated full time teaching personnel and 3 administrative employees to provide services to 483 students and other community members

The School District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The School District is the 596th largest in the State of Ohio (among 611 school districts) in terms of enrollment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fairlawn 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 the enterprise fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fairlawn 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 does not have any component units.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), jointly governed organizations. The School District is also associated with the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 14 and 15 to the combined financial statements.

B. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in the enterprise fund and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 related costs.

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds or trust funds).

2. Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund

The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trusts and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

C. Measurement Focus and Basis of Accounting

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

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The enterprise fund's operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available as an advance, taxpayer-assessed income taxes, interest, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2000, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2001 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual basis of accounting is utilized for reporting purposes by the enterprise fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The special revenue funds grant activity that is administered by a fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the function level of General and Debt Service Fund. The legal level of budgetary control is at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Shelby County Budget Commission for rate determination.

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2000.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. During fiscal year 2000, investments were limited to repurchase agreements and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificate of deposit are reported at cost.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2000 amounted to \$72,648, which includes \$25,260 assigned from other School District funds. In addition, the enterprise fund received \$875 in interest.

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 combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits. In addition, the balance of various grant activity administered by the fiscal agent is presented on the combining balance sheet as "cash and cash equivalents with fiscal agent" and represents deposits.

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

F. Inventory

Inventories of governmental funds are stated at cost while inventories of the enterprise fund are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food, and purchased non-foods and are expensed when used.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set aside by the School District for the purchase of textbooks, for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the respective fund. All fixed 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 three hundred dollars.

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. Interest incurred during the construction of general fixed assets is also not capitalized.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of 5 to 10 years. The School District has a sewage treatment facility that is recorded as infrastructure. Improvements to fund fixed assets are capitalized and depreciated over the remaining useful lives of the related fixed assets.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allowance

Non-Reimbursable Grants

Special Revenue Funds

- Education Management Information Systems
- Title VI-B
- Title I
- Title VI
- Professional Development Grant
- School Net Professional Development
- Eisenhower Grant Title II
- Pre-School Grant
- Drug Free Grant Title IV
- Title VI-R
- School Improvement Incentive

Capital Projects

- School Net Plus
- Technology Grant
- IVDL Grant
- Emergency Repair Grant

Reimbursable Grants

General Fund

- Driver Education

Special Revenue Fund

- Telecommunications Act Grant

Proprietary Funds

- National School Lunch Program
- Government Donated Commodities

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and entitlements received in governmental funds amounted to approximately 52 percent of the School District's governmental fund revenue during the 2000 fiscal year.

J. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables/payables".

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after ten years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and pension obligations that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available resources. Bonds and long-term loans are reported as a liability of the general long-term debt account group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the appropriate funds.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Fund Balance Reserves

The School district records reservations for portions of fund equity which are legally segregated for specific future use of 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 that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and material, budget stabilization, textbook and instructional materials, capital improvements, school bus purchases, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but no available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

O. Estimates

The preparation of the 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 could differ from those estimates.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only) "to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types and Expendable Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity- Budget (Non-GAAP Basis) and Actual - Enterprise Fund are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. For the enterprise fund, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent are included in the special revenue funds for GAAP reporting purposes.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types and Expendable Trust Fund

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$62,881	\$23,750	\$36,544	(\$32,972)	\$1,000
Revenue Accruals	37,301	(27,325)	(724)	0	0
Expenditure Accruals	4,445	25,332	0	(70,109)	0
Encumbrances Outstanding At Year End (Budget Basis)	(64,399)	(477)	0	0	0
Budget Basis	<u>\$40,228</u>	<u>\$21,280</u>	<u>\$35,820</u>	<u>(\$103,081)</u>	<u>\$1,000</u>

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 two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in the division (1) OR (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
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.

Investments in stripped principal or interest obligation, 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.

At fiscal year end, the School District had \$1,800 in undeposited cash on hand, which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

The "Cash and Cash Equivalents with Fiscal Agent" of \$4,821 shown in the special revenue funds is maintained with the Shelby County Educational Service Center. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$800,146 and the bank balance was \$862,909. Of the bank balance:

1. \$101,663 was covered by federal depository insurance; and
2. \$761,246 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County held to a successful claim by the FDIC

Investments: The School District's investments are categorized below 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.

	Category 3	Carrying /Market Value
Repurchase Agreement	\$349,424	\$349,424

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar fiscal 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 located in the School District. Property tax revenue received during calendar 2000 for real and public utility property taxes represents collections of calendar 1999 taxes. Property tax payments received during calendar 2000 for tangible personal property (other than public utility property) is for calendar 2000 taxes.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

5. PROPERTY TAXES (Continued)

2000 real property taxes are levied after April 1, 2000, on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half-2000 real property taxes are collected in and intended to finance fiscal year 2000.

Public utility tangible personal property currently is assessed at varying percentage of true value; public utility real property is assessed at thirty-five percent of true value. 2000 public utility property taxes became a lien December 31, 1999, are levied after April 1, 2000 and are collected in 2001 with real property taxes.

2000 tangible personal property taxes are levied after April 1, 1999, on the value as of December 31, 1999. Collections are made in 2000. Tangible personal property assessments are 25 percent of true 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 earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 2000 taxes were collected are:

	1999 Second- Half Collections		2000 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$22,281,080	72%	\$27,574,980	77%
Public Utility	8,101,930	26	7,714,360	21
Tangible Personal Property	723,920	2	652,751	2
Total Assessed Value	\$31,106,930	100%	\$35,942,091	100%
Tax rate per \$1,000 of Assessed valuation	\$32.2		\$31.6	

Manufactured Home Tax, commonly referred to as House Trailer Tax, is based on the purchase price obtained from the title: (1) ninety-five percent unfurnished or (2) eighty percent furnished with a five percent drop each year.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2000, are available to finance fiscal year 2000 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

5. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became available as of June 30, 2000. Although total property tax allocations for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2000, was \$39,044 in the general fund and \$4,680 in the bond retirement debt service fund.

6. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 2000, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

8. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2000, follows:

Furniture and Equipment	\$41,535
Less Accumulated Depreciation	(39,298)
Net Fixed Assets	\$2,237

A summary of the change in general fixed assets during fiscal year 2000 follows:

Asset Category	Balance at 06/30/99	Additions	Deletions	Balance at 06/30/00
Land and Improvements	\$223,277	\$0	\$452	\$222,825
Buildings and Improvements	1,485,629	2,430	0	1,488,059
Furniture, Fixtures and Equipment	779,030	82,606	29,873	831,763
Vehicles	442,480	54,566	29,355	467,691
Infrastructure	13,295	84,652	0	97,947
Totals	\$2,943,711	\$224,254	\$59,680	\$3,108,285

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000, the School District contracted with Indiana Insurance Company through Ruese Insurance Agency for property and fleet insurance, and inland marine coverage. The School District contracted with Nationwide Mutual Insurance Company through Harcum Insurance Agency for liability insurance.

Coverage provided by Indiana Insurance Company are as follows:

Building and Contents - replacement cost (\$500 deductible)	\$6,900,000
Inland Marine Coverage (\$100 deductible)	60,000
Boiler and Machinery (\$500 deductible)	No limit
Crime Insurance	1,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Coverage provided by Nationwide Mutual Insurance Company are as follows:

General Liability	
Per occurrence	1,000,000
Aggregate	5,000,000
Umbrella Additional coverage	4,000,000

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

B. Worker's Compensation

For fiscal year 2000, the School District participated in the Southwestern Ohio Educational Purchasing Cooperative, Workers' Compensation Group Grating Program, an insurance purchasing pool (Note 15). The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Fairlawn Local School District is required to contribute 14 percent. For fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory requirements, by the SERS's Retirement Board. The School District's contributions to SERS for the fiscal years ending June 30, 2000, 1999, and 1998 were \$21,866, \$36,863 and \$49,632, respectively; 40.13 percent has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$44,997 representing the unpaid contribution for fiscal year 2000 is recorded as a liability within the respective funds and the general long-term debt account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions to STRS for the fiscal years ending June 30, 2000, 1999, and 1998 were \$84,146, \$81,614, and \$133,104, respectively; 84.5 percent has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$30,436 representing the unpaid contribution for fiscal year 2000 is recorded as a liability within the respective funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

11. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$112,195 during the 2000 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.783 million at June 30, 1999 (latest information available). For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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. For this fiscal year June 30, 2000, employer contributions to fund health care benefits were 8.5 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 2000, the minimum pay has been established at \$12,400.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expense for health care at June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

For the School District, the amount to fund health care benefits, including the surcharge, equaled \$45,465 during the 2000 fiscal year.

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment up to six weeks. 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 300 days for certified personnel and 250 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for certified employees and 30 days for classified employees.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

12. EMPLOYEE BENEFITS (Continued)

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Community National. The School District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is provided by the School District to most employees through Anthem.

C. Special Termination Benefit Payable

Severance payment shall be available to the Superintendent who leaves the district with five or more years service and to the Treasurer with seven or more years service. This payment shall be paid at separation, including at retirement, death, or resignation. Such severance will have no connection with their accumulative sick leave or require its forfeiture. Formula for payment is detailed in board policy 1510.1 and 1360.1. The liability has been recorded in the general fund with the long term portion in the GLTDAG. These policies were rescinded by the Board during the FY00.

D. Early Retirement Incentive Plan

Based on the Board's analysis of the financial profile of the school district, it offered to the certified staff an Early Retirement Incentive for FY00. Eligibility requirements were described in the Board Policy. The ERI was terminated in the last negotiated agreement.

13. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2000 were as follows:

	Principal Outstanding 6/30/99	Additions	Deductions	Principal Outstanding 6/30/00
School Improvement Bond 1983 9.5%	\$285,000	\$0	\$40,000	\$245,000
Energy Conservation Loan 1991 5.95%	20,100	0	6,700	13,400
Total Long-Term Debt	305,100	0	46,700	258,400
Intergovernmental Payable	20,725	21,082	20,725	21,082
Compensated Absences	141,642	0	21,160	120,482
Total General Long-Term Obligations	<u>\$467,467</u>	<u>\$21,082</u>	<u>\$88,585</u>	<u>\$399,964</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

Fairlawn Local School Improvement Bonds

On April 1, 1983, Fairlawn Local School District issued \$900,000 in voted general obligation bonds for the purpose of an school improvement to the high school building. The bonds were issued for a twenty-two year period with final maturity at December 1, 2005. This bond will be paid from tax revenue in the debt service fund.

Energy Conservation Loan

On October 10, 1991, Fairlawn Local School District entered in a \$67,000 unvoted general obligation note for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 3313.372 and 3313.373. The note was issued for a ten fiscal year period with final maturity during fiscal year 2001. The debt will be retired from savings, which are anticipated from the energy conservation improvements.

Intergovernmental Payable

Intergovernmental payable consists of SERS and SERS surcharge liabilities that will not be paid with current available expendable financial resources, and will be paid from the fund from which the employees' salaries are paid.

Compensated absences will be paid from the fund from which the employees' salaries are paid. This includes possible sick leave severance, accumulated vacation and separation severance.

The School District's overall legal debt margin was \$3,234,789 with an energy conservation debt margin of \$323,478, and unvoted debt margin of \$35,942 at June 30, 2000.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2000, are as follows:

Fiscal Year Ending June 30,	Bonds Payable	Energy Conservation Loan
2001	\$61,375	\$ 7,497
2002	57,575	7,098
2003	53,775	0
2004	54,738	0
2005	45,700	0
2006	41,900	0
Total	\$315,063	\$14,595

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)- The Fairlawn Local School District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. 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 districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the School District. The School District paid WOCO \$12,205 for services provided during the year. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Cooperative – The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC made from the General Fund amount to \$1,673. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets will be distributed to the federal government, or to a state of local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2000, the School District paid \$250 to SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Television Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

15. GROUP PURCHASING POOLS

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Southwestern Ohio EPC established this pool and CompManagement provides consultant services in the management of the program. Each year, the participating school districts pay an enrollment fee to the Southwestern Ohio EPC to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently.

Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Community National for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

16. INTERFUND RECEIVABLE/PAYABLE

At June 30, 2000, the School District had an advance outstanding from the General Fund to the Title 1 Special Revenue fund in the amount \$5,000.

17. SCHOOL FUNDING COURT DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school-funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School District received \$1,392,522 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

17. SCHOOL FUNDING COURT DECISION (Continued)

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001. As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

18. SET-ASIDE CALCULATIONS

The school District is required by State statute to annually set aside an amount based on prior year revenues for the purchase of textbooks and other instructional materials and an addition amount for capital improvements. Amounts not spent by year-end or offset by similarly restricted resources must be held in cash at year-end and carried forward to be used for the same purposes in future years. The following information describes the changes in amounts set-aside for textbooks and instructional materials, and capital improvements from the end of the prior year to the end of the current year. Disclosure of this information is required by State statute. We have also disclosed the change in reserve for school bus purchases.

A. Textbooks and Instructional Materials

Set-aside balance carried forward from the prior year	\$ 0
Current year set-aside requirement	62,102
Qualifying expenditures made during the year	(53,265)
Amount of offsets for the year	<u>(0)</u>
Total	8,837
Balance of set-aside to be carried forward to next year	<u>\$ 8,837</u>

B. Capital Improvements

Set-aside balance carried forward from the prior year	\$ 0
Current year set-aside requirement	62,102
Qualifying expenditures made during the year	(61,191)
Amount of offsets for the year	<u>(0)</u>
Total	911
Balance of set-aside to be carried forward to next year	<u>\$ 911</u>

C. Budget Stabilization

Set-aside balance carried forward from the prior year	\$29,788
Current year set-aside requirement	10,981
Qualifying expenditures made during the year	0
Amount of offsets for the year	<u>0</u>
Total	40,769
Balance of set-aside to be carried forward to next year	<u>\$40,769</u>

D. School Bus Purchase

Set-aside balance carried forward from the prior year	\$45,202
Current year set-aside requirement	70,109
Qualifying expenditures made during the year	(54,815)
Amount of offsets for the year	<u>0</u>
Total	60,496
Balance of set-aside to be carried forward to next year	<u>\$60,496</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

18. SET-ASIDE CALCULATIONS (Continued)

Amounts of offsets and qualifying disbursements presented in these tables were limited to those amounts necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements during the year, these amounts may not be used to reduce the set-aside requirements of future years, and are therefore not presented.

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, 2000.

B. Litigation

The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$606,567	\$31,133	\$218,426	\$117,732
Cash and Cash Equivalents With Fiscal Agent	0	3,628	1,663	0
Receivables:				
Taxes	845,631	0	87,163	0
Accounts	5,668	1,104	0	0
Accrued Interest	867	0	0	0
Interfund Receivable	41,200	0	0	0
Inventory of Supplies and Materials	8,232	0	0	0
Inventory Held for Resale	0	0	0	0
Restricted Assets:				0
Equity in Pooled Cash & Cash Equivalents	74,989	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0	0
Total Assets and Other Debits	<u>\$1,583,154</u>	<u>\$35,865</u>	<u>\$307,252</u>	<u>\$117,732</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	\$6,336	\$167	\$0	\$28,834
Accrued Wages Payable	175,732	5,072	0	0
Interfund Payable	0	0	0	41,200
Intergovernmental Payable	43,497	703	0	0
Due to Students	0	0	0	0
Deferred Revenue	741,863	0	83,207	0
Compensated Absences Payable	36,301	0	0	0
Matured Interest Payable	0	0	1,663	0
Early Retirement Incentive Payable	11,053	0	0	0
Energy Conservation Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>1,014,782</u>	<u>5,942</u>	<u>84,870</u>	<u>70,034</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	6,058	23	0	44,950
Reserved for Inventory	8,232	0	0	0
Reserved for Property Taxes	33,632	0	3,957	0
Reserved for Budget Stabilization	29,788	0	0	0
Reserved for Bus Purchase	45,201	0	0	0
Unreserved:				
Undesignated (Deficit)	445,461	29,900	218,425	2,748
Total Fund Equity and Other Credits	<u>568,372</u>	<u>29,923</u>	<u>222,382</u>	<u>47,698</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,583,154</u>	<u>\$35,865</u>	<u>\$307,252</u>	<u>\$117,732</u>

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$11,606	\$24,563	\$0	\$0	\$1,010,027
0	0	0	0	5,291
0	0	0	0	932,794
254	0	0	0	7,026
0	0	0	0	867
0	0	0	0	41,200
81	0	0	0	8,313
2,629	0	0	0	2,629
0	0	0	0	74,989
1,610	0	2,943,711	0	2,945,321
0	0	0	222,382	222,382
0	0	0	245,085	245,085
<u>\$16,180</u>	<u>\$24,563</u>	<u>\$2,943,711</u>	<u>\$467,467</u>	<u>\$5,495,924</u>
\$0	\$0	\$0	\$0	\$35,337
2,887	0	0	0	183,691
0	0	0	0	41,200
3,463	0	0	20,725	68,388
0	24,063	0	0	24,063
2,381	0	0	0	827,451
1,667	0	0	141,642	179,610
0	0	0	0	1,663
0	0	0	0	11,053
0	0	0	20,100	20,100
0	0	0	285,000	285,000
<u>10,398</u>	<u>24,063</u>	<u>0</u>	<u>467,467</u>	<u>1,677,556</u>
0	0	2,943,711	0	2,943,711
5,782	0	0	0	5,782
0	0	0	0	51,031
0	0	0	0	8,232
0	0	0	0	37,589
0	0	0	0	29,788
0	0	0	0	45,201
0	500	0	0	697,034
<u>5,782</u>	<u>500</u>	<u>2,943,711</u>	<u>0</u>	<u>3,818,368</u>
<u>\$16,180</u>	<u>\$24,563</u>	<u>\$2,943,711</u>	<u>\$467,467</u>	<u>\$5,495,924</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Property Taxes	\$775,808	\$0	\$87,338	\$0	\$0	\$863,146
Income Taxes	244,863	0	0	0	0	244,863
Intergovernmental	1,490,580	79,057	8,152	158,291	0	1,736,080
Interest	54,041	0	0	0	0	54,041
Tuition and Fees	239,415	0	0	0	0	239,415
Extracurricular Activities	0	26,329	0	0	0	26,329
Gifts & Donations	247	1,728	0	0	500	2,475
Miscellaneous	30,125	0	0	0	0	30,125
Total Revenues	<u>2,835,079</u>	<u>107,114</u>	<u>95,490</u>	<u>158,291</u>	<u>500</u>	<u>3,196,474</u>
Expenditures:						
Current:						
Instruction:						
Regular	1,290,620	8,323	0	39,911	0	1,338,854
Special	189,101	52,174	0	0	0	241,275
Adult/Continuing	3,960	0	0	0	0	3,960
Other	4,670					4,670
Support Services:						
Pupils	101,904	21,880	0	0	0	123,784
Instructional Staff	96,251	6,143	0	0	0	102,394
Board of Education	8,792	0	0	0	0	8,792
Administration	451,191	53	0	0	0	451,244
Fiscal	105,677	773	1,908	0	0	108,358
Business	6,202	75	0	0	0	6,277
Operation and Maintenance of Plant	263,491	755	0	0	0	264,246
Pupil Transportation	187,708	0	0	0	0	187,708
Central	0	1,600	0	0	0	1,600
Operation of Non-Instructional Services	0	0	0	0	500	500
Extracurricular Activities	81,582	21,565	0	0	0	103,147
Capital Outlay	0	0	0	182,501	0	182,501
Debt Service:						
Principal Retirement	19,865	0	45,000	0	0	64,865
Interest and Fiscal Charges	2,212	0	29,213	0	0	31,425
Total Expenditures	<u>2,813,226</u>	<u>113,341</u>	<u>76,121</u>	<u>222,412</u>	<u>500</u>	<u>3,225,600</u>
Excess of Revenues Over (Under) Expenditures	<u>21,853</u>	<u>(6,227)</u>	<u>19,369</u>	<u>(64,121)</u>	<u>0</u>	<u>(29,126)</u>
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	180	0	0	0	0	180
Total Other Financing Sources (Uses)	<u>180</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>180</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	22,033	(6,227)	19,369	(64,121)	0	(28,946)
Fund Balances at Beginning of Year	548,547	36,150	203,013	111,819	500	900,029
Decrease in Reserve for Inventory	(2,208)	0	0	0	0	(2,208)
Fund Balances at End of Year	<u>\$568,372</u>	<u>\$29,923</u>	<u>\$222,382</u>	<u>\$47,698</u>	<u>\$500</u>	<u>\$868,875</u>

See Accompanying Notes to the General Purpose Financial Statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property and Other Local Taxes	\$775,258	\$774,064	(\$1,194)	\$0	\$0	\$0
Income Tax	249,500	249,560	60	0	0	0
Intergovernmental	1,496,551	1,490,830	(5,721)	54,047	54,047	0
Interest	53,200	53,261	61	0	0	0
Tuition and Fees	232,600	239,415	6,815	0	0	0
Extracurricular Activities	0	0	0	26,957	26,329	(628)
Gifts & Donations	0	247	247	1,100	1,728	628
Miscellaneous	30,320	30,374	54	0	0	0
Total Revenues	2,837,429	2,837,751	322	82,104	82,104	0
Expenditures:						
Current:						
Instruction:						
Regular	1,327,659	1,284,852	42,807	8,323	8,323	0
Special	228,290	190,019	38,271	34,385	33,595	790
Adult/Continuing	4,000	3,960	40	0	0	0
Other	7,621	4,448	3,173	0	0	0
Support Services:						
Pupils	113,840	107,215	6,625	22,848	18,884	3,964
Instructional Staff	125,004	104,793	20,211	5,659	5,197	462
Board of Education	10,334	8,803	1,531	0	0	0
Administration	439,168	420,918	18,250	0	0	0
Fiscal	110,688	105,119	5,569	865	750	115
Business	8,140	6,983	1,157	0	0	0
Operation and Maintenance of Plant	308,229	266,531	41,698	800	755	45
Pupil Transportation	264,017	194,775	69,242	0	0	0
Central	500	0	500	2,500	2,337	163
Operation of Non-Instructional Services						
Extracurricular Activities	82,572	81,472	1,100	23,366	21,922	1,444
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	19,865	19,865	0	0	0	0
Interest and Fiscal Charges	2,517	2,212	305	0	0	0
Total Expenditures	3,052,444	2,801,965	250,479	98,746	91,763	6,983
Excess of Revenues Over (Under) Expenditures	(215,015)	35,786	250,801	(16,642)	(9,659)	(6,983)
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	2,291	2,291	0	2,209	2,209	0
Proceeds from Sale of Fixed Assets	500	180	(320)	0	0	0
Advances In	0	0	0	0	0	0
Advances Out	(52,200)	(41,200)	11,000	0	0	0
Operating Transfers Out	(11,399)	0	11,399	0	0	0
Total Other Financing Sources (Uses)	(60,808)	(38,729)	22,079	2,209	2,209	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(275,823)	(2,943)	272,880	(14,433)	(7,450)	6,983
Fund Balances at Beginning of Year	622,315	622,315	0	31,258	31,258	0
Prior Year Encumbrances Appropriated	36,244	36,244	0	7,135	7,135	0
Fund Balances at End of Year	\$382,736	\$655,616	\$272,880	\$23,960	\$30,943	\$6,983

See Accompanying Notes to the General Purpose Financial Statements

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$87,206	\$87,117	(\$89)	\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0	0	0	0
8,063	8,152	89	199,491	158,291	(41,200)	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	500	500	0
0	0	0	0	0	0	0	0	0
<u>95,269</u>	<u>95,269</u>	<u>0</u>	<u>199,491</u>	<u>158,291</u>	<u>(41,200)</u>	<u>500</u>	<u>500</u>	<u>0</u>
0	0	0	50,658	44,486	6,172	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
2,400	1,908	492	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	500	500	0
0	0	0	0	0	0	0	0	0
0	0	0	236,528	231,478	5,050	0	0	0
45,000	45,000	0	0	0	0	0	0	0
29,213	29,213	0	0	0	0	0	0	0
<u>76,613</u>	<u>76,121</u>	<u>492</u>	<u>287,186</u>	<u>275,964</u>	<u>11,222</u>	<u>500</u>	<u>500</u>	<u>0</u>
<u>18,656</u>	<u>19,148</u>	<u>492</u>	<u>(87,695)</u>	<u>(117,673)</u>	<u>(29,978)</u>	<u>0</u>	<u>0</u>	<u>0</u>
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	41,200	41,200	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,200</u>	<u>41,200</u>	<u>0</u>	<u>0</u>	<u>0</u>
18,656	19,148	492	(87,695)	(76,473)	11,222	0	0	0
199,278	199,278	0	106,799	106,799	0	500	500	0
0	0	0	9,334	9,334	0	0	0	0
<u>\$217,934</u>	<u>\$218,426</u>	<u>\$492</u>	<u>\$28,438</u>	<u>\$39,660</u>	<u>\$11,222</u>	<u>\$500</u>	<u>\$500</u>	<u>\$0</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Operating Revenues:	
Sales	<u>\$84,025</u>
Operating Expenses:	
Salaries and Wages	19,175
Fringe Benefits	9,670
Purchased Services	51,521
Materials and Supplies	951
Cost of Sales	31,771
Depreciation	71
Total Operating Expenses	<u>113,159</u>
Operating Loss	<u>(29,134)</u>
Non-Operating Revenues:	
Federal Donated Commodities	9,116
Interest	290
Federal and State Subsidies	24,943
Total Non-Operating Revenues	<u>34,349</u>
Net Income	5,215
Retained Earnings (Deficit) at Beginning of Year	<u>567</u>
Retained Earnings at End of Year	<u><u>\$5,782</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	ENTERPRISE
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$84,025
Cash Payments to Employee for Services	(19,011)
Cash Payments for Employee Benefits	(9,599)
Cash Payments to Suppliers for Goods and Services	(75,240)
Net Cash Used in Operating Activities	(19,825)
 Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	24,943
 Cash Flows from Capital and Related Financing Activities:	
Acquisition of Fixed Assets	(1,100)
 Cash Flows from Investing Activities	
Interest	290
 Net Decrease in Cash and Cash Equivalents	4,308
 Cash and Cash Equivalents Beginning of Year	7,298
 Cash and Cash Equivalents End of Year	\$11,606
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
<u>Operating Loss</u>	(\$29,135)
 Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	71
Donated Commodities Received	9,116
Changes in Assets and Liabilities:	
(Increase)Decrease in Accounts Receivable	(254)
(Increase)Decrease in Materials and Supplies Inventory	100
(Increase)Decrease in Inventory Held for Resale	42
Increase(Decrease) in Accrued Salaries Payable	73
Increase(Decrease) in Intergovernmental Payable	70
Increase (Decrease) in Compensated Absences Payable	92
Net Cash Used in Operating Activities	(\$19,825)

See Accompanying Notes to the General Purpose Financial Statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Fairlawn Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Fairlawn Local School District operates under a locally elected Board form of government and provides educational services as authorized by State and/or federal agencies. This Board controls the School District's two instructional/support facilities staffed by 21 non-certificated employees, 36 certificated full time teaching personnel and 3 administrative employees to provide services to 513 students and other community members

The School District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The School District is the 596th largest in the State of Ohio (among 611 school districts) in terms of enrollment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fairlawn 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 the enterprise fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fairlawn 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 does not have any component units.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), jointly governed organizations. The School District is also associated with the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 14 and 15 to the combined financial statements.

B. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in the enterprise fund and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 related costs.

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds or trust funds).

2. Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund

The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trusts and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

C. Measurement Focus and Basis of Accounting

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

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The enterprise fund's operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available as an advance, taxpayer-assessed income taxes, interest, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual basis of accounting is utilized for reporting purposes by the enterprise fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The special revenue funds grant activity that is administered by a fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Shelby County Budget Commission for rate determination.

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

5. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

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, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. During fiscal year 1999, investments were limited to repurchase agreements and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificate of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$54,041, which includes \$19,703 assigned from other School District funds. In addition, the enterprise fund received \$290 in interest.

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 combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits. In addition, the balance of various grant activity administered by the fiscal agent is presented on the combining balance sheet as "cash and cash equivalents with fiscal agent" and represents deposits.

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

F. Inventory

Inventories of governmental funds are stated at cost while inventories of the enterprise fund are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditure in the governmental fund types when purchased.

Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food, and purchased non-foods and are expensed when used.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set aside by the School District for the purchase of textbooks, for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the respective fund. All fixed 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 three hundred dollars.

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. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of 5 to 10 years. The School District has a sewage treatment facility that is recorded as infrastructure. Improvements to fund fixed assets are capitalized and depreciated over the remaining useful lives of the related fixed assets.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allowance

Non-Reimbursable Grants

Special Revenue Funds

- Education Management Information Systems
- Title VI-B
- Title I
- Title VI
- Professional Development Grant
- School Net Professional Development
- Eisenhower Grant
- Pre-School Grant
- Textbook Subsidy

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants (Continued)

Capital Projects

- School Net Plus
- Technology Grant
- IVDL Grant
- Emergency Repair Grant

Reimbursable Grants

General Fund

- Driver Education

Special Revenue Fund

- Telecommunications Act Grant

Proprietary Funds

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements received in governmental funds amounted to approximately 54 percent of the School District's governmental fund revenue during the 1999 fiscal year.

J. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables/payables".

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after ten years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and pension obligations that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available resources. Bonds and long-term loans are reported as a liability of the general long-term debt account group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the appropriate funds.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Fund Balance Reserves

The School district records reservations for portions of fund equity which are legally segregated for specific future use of 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 that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and material, budget stabilization, school bus purchases, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but no available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

O. Estimates

The preparation of the 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 could differ from those estimates.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types and Expendable Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity- Budget (Non-GAAP Basis) and Actual - Enterprise Fund are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. For the enterprise fund, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent are included in the special revenue funds for GAAP reporting purposes.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types and Expendable Trust Fund					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$22,033	(\$6,227)	\$19,369	(\$64,121)	\$0
Revenue Accruals	4,963	(1,104)	(221)	0	0
Expenditure Accruals	32,752	(1,165)	0	24,445	0
Non Budgeted Funds	0	1,236	0	0	0
Advances	(41,200)	0	0	41,200	0
Encumbrances Outstanding At Year End (Budget Basis)	(21,491)	(190)	0	(77,997)	0
Budget Basis	<u>(\$2,943)</u>	<u>(\$7,450)</u>	<u>\$19,148</u>	<u>(\$76,473)</u>	<u>\$0</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in the division (1) OR (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
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.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligation, 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.

At fiscal year end, the School District had \$1,700 in undeposited cash on hand, which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$3,628 shown in the special revenue funds is maintained with the Shelby County Educational Service Center. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$732,839 and the bank balance was \$823,077. Of the bank balance:

1. \$101,663 was covered by federal depository insurance; and
2. \$721,414 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County held to a successful claim by the FDIC

Investments: The School District's investments are categorized below 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.

	Category 3	Carrying /Market Value
Repurchase Agreement	\$352,140	\$352,140

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar fiscal 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 located in the School District. Property tax revenue received during calendar 1999 for real and public utility property taxes represents collections of calendar 1998 taxes. Property tax payments received during calendar 1999 for tangible personal property (other than public utility property) is for calendar 1999 taxes.

1999 real property taxes are levied after April 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half-1999 real property taxes are collected in and intended to finance fiscal year 2000.

Public utility tangible personal property currently is assessed at varying percentage of true value; public utility real property is assessed at thirty-five percent of true value. 999 public utility property taxes became a lien December 31, 1998, are levied after April 1, 1999 and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after April 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are 25 percent of true 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 earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 1999 taxes were collected are:

	1998 Second- Half Collections		1999 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$21,776,990	72%	\$22,281,080	72%
Public Utility	7,833,300	26	8,101,930	26
Tangible Personal Property	673,435	2	723,920	2
Total Assessed Value	\$30,283,725	100%	\$31,106,930	100%
Tax rate per \$1,000 of Assessed valuation	\$32.2		\$32.2	

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

5. PROPERTY TAXES (Continued)

Manufactured Home Tax, commonly referred to as House Trailer Tax, is based on the purchase price obtained from the title: (1) ninety-five percent unfurnished or (2) eighty percent furnished with a five percent drop each year.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2000, are available to finance fiscal year 2000 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became available as of June 30, 2000. Although total property tax allocations for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended and finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2000, was \$33,632 in the general fund and \$3,957 in the bond retirement debt service fund.

6. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 1999, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

8. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$40,801
Less Accumulated Depreciation	<u>(39,191)</u>
Net Fixed Assets	<u><u>\$1,610</u></u>

A summary of the change in general fixed assets during fiscal year 1999 follows:

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

8. FIXED ASSETS (Continued)

Asset Category	Balance at 06/30/98	Additions	Deletions	Balance at 06/30/99
Land and Improvements	\$221,957	\$1,320	\$0	\$223,277
Buildings and Improvements	1,354,108	131,521	0	
Furniture, Fixtures and Equipment	726,041	56,704	3,715	779,030
Vehicles	436,525	55,600	49,645	442,480
Infrastructure	13,295	0	0	13,295
Totals	<u><u>\$2,751,926</u></u>	<u><u>\$245,145</u></u>	<u><u>\$53,360</u></u>	<u><u>\$2,943,711</u></u>

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the School District contracted with Indiana Insurance Company through Ruese Insurance Agency for property and fleet insurance, and inland marine coverage. The School District contracted with Nationwide Mutual Insurance Company through Harcum Insurance Agency for liability insurance.

Coverage provided by Indiana Insurance Company are as follows:

Building and Contents - replacement cost (\$500 deductible)	\$6,900,000
Inland Marine Coverage (\$100 deductible)	60,000
Boiler and Machinery (\$500 deductible)	No limit
Crime Insurance	1,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Coverage provided by Nationwide Mutual Insurance Company are as follows:

General Liability	
Per occurrence	1,000,000
Aggregate	5,000,000
Umbrella Additional coverage	4,000,000

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

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

9. RISK MANAGEMENT (Continued)

B. Worker's Compensation

For fiscal year 1999, the School District participated in the Southwestern Ohio Educational Purchasing Cooperative, Workers' Compensation Group Grating Program, an insurance purchasing pool (Note 15). The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Fairlawn Local School District is required to contribute 14 percent. For fiscal year 1999, 7.7 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory requirements, by the SERS's Retirement Board. The School District's contributions to SERS for the fiscal years ending June 30, 1999, 1998, and 1997 were \$23,208, \$36,410 and \$32,345, respectively; 41.16 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$13,655 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds and the general long-term debt account group.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions to STRS for the fiscal years ending June 30, 1999, 1998, and 1997 were \$67,972, \$133,104, and \$147,950, respectively; 79.93 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$13,642 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds.

11. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$90,629 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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. For this fiscal year, employer contributions to fund health care benefits were 6.3 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 1999, the minimum pay has been established at \$12,400. 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 125 percent of annual health care expenses. Expense for health care at June 30, 1998, were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

For the School District, the amount to fund health care benefits, including the surcharge, equaled \$25,896 during the 1999 fiscal year.

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment up to six weeks. 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 300 days for certified personnel and 250 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for certified employees and 30 days for classified employees.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Community National. The School District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is provided by the School District to most employees through Anthem.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

12. EMPLOYEE BENEFITS (Continued)

C. Special Termination Benefit Payable

Severance payment shall be available to the Superintendent who leaves the district with five or more years service and to the Treasurer with seven or more years service. This payment shall be paid at separation, including at retirement, death, or resignation. Such severance will have no connection with their accumulative sick leave or require its forfeiture. Formula for payment is detailed in board policy 1510.1 and 1360.1. The liability has been recorded in the general fund with the long term portion in the GLTDAG.

D. Early Retirement Incentive Plan

Based on the Board's analysis of the financial profile of the school district, it offered to the certified staff an Early Retirement Incentive for FY99. Eligibility requirements were described in the negotiated agreement 7.17.

13. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 1999 were as follows:

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
School Improvement				
Bond 1983 9.5%	\$330,000	\$0	\$45,000	\$285,000
School Bus #60				
Loan 1995 6.20%	13,165	0	13,165	0
Energy Conservation				
Loan 1991 5.95%	26,800	0	6,700	20,100
Total Long-Term Debt	369,965	0	64,865	305,100
Intergovernmental Payable	21,456	20,725	21,456	20,725
Compensated Absences	185,788	0	44,146	141,642
Total General Long-Term Obligations	<u>\$577,209</u>	<u>\$20,725</u>	<u>\$130,467</u>	<u>\$467,467</u>

Fairlawn Local School Improvement Bonds

On April 1, 1983, Fairlawn Local School District issued \$900,000 in voted general obligation bonds for the purpose of an school improvement to the high school building. The bonds were issued for a twenty-two year period with final maturity at December 1, 2005. This bond will be paid from tax revenue in the debt service fund.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

Energy Conservation Loan

On October 10, 1991, Fairlawn Local School District entered in a \$67,000 unvoted general obligation note for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 3313.372 and 3313.373. The note was issued for a ten fiscal year period with final maturity during fiscal year 2001. The debt will be retired from savings which are anticipated from the energy conservation improvements.

School Bus Installment Loan

On September 15, 1995, Fairlawn Local School District entered into an installment loan agreement for the purchase of Bus #60 for \$49,645. Final payment was made July 1, 1998, from resources in the general fund.

Intergovernmental Payable

Intergovernmental payable consists of SERS and SERS surcharge liabilities that will not be paid with current available expendable financial resources, and will be paid from the fund from which the employees' salaries are paid.

Compensated absences will be paid from the fund from which the employees' salaries are paid. This includes possible sick leave severance, accumulated vacation and separation severance.

The School District's overall legal debt margin was \$2,737,006 with an energy conservation debt margin of \$259,862, and unvoted debt margin of \$31,107 at June 30, 1999.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 1999, are as follows:

Fiscal year Ending June 30,	Bonds Payable	Energy Conservation Loan
2000	\$65,175	\$ 7,895
2001	61,375	7,497
2002	57,575	7,098
2003	53,775	0
2004	54,738	0
2005-2006	87,600	0
Total	\$ 380,238	\$ 22,490

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)- The Fairlawn Local School District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. 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 districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the School District. The School District paid WOCO \$8,488 for services provided during the year. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Cooperative – The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC made from the General Fund amount to \$7,812. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets will be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 1999, the School District paid \$1,081 to SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Television Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

15. GROUP PURCHASING POOLS

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Southwestern Ohio EPC established this pool and CompManagement provides consultant services in the management of the program. Each year, the participating school districts pay an enrollment fee to the Southwestern Ohio EPC to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently.

Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Community National for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to each representation on the committee. In fiscal year 1999, Fairlawn Local School District contributed \$191,780 which represented 10 percent of total contributions to Anthem Blue Cross/Blue Shield and contributed \$4,667 to Anthem Life. Financial information can be obtained from Mary Lou Holly, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

16. INTERFUND RECEIVABLE/PAYABLE

At June 30, 1999, the School District had an advance outstanding from the General Fund to the Emergency Repair Capital Projects fund in the amount \$41,200.

17. SCHOOL FUNDING COURT DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school-funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School District received \$1,400,350 of school foundation support for its general fund.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

17. SCHOOL FUNDING COURT DECISION (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001. As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

18. SET-ASIDE CALCULATIONS

The school District is required by State statute to annually set aside an amount based on prior year revenues for the purchase of textbooks and other instructional materials and an addition amount for capital improvements. Amounts not spent by year-end or offset by similarly restricted resources must be held in cash at year-end and carried forward to be used for the same purposes in future years. The following information describes the changes in amounts set-aside for textbooks and instructional materials, and capital improvements from the end of the prior year to the end of the current year. Disclosure of this information is required by State statute. We have also disclosed the change in reserve for school bus purchases.

A. Textbooks and Instructional Materials

Set-aside balance carried forward from the prior year	\$ 0
Current year set-aside requirement	40,139
Qualifying expenditures made during the year	(32,897)
Amount of offsets for the year	<u>(7,242)</u>
Total	<u>0</u>
Balance of set-aside to be carried forward to next year	\$ <u>0</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

18. SET-ASIDE CALCULATIONS (Continued)

B. Capital Improvements

Set-aside balance carried forward from the prior year	\$ 0
Current year set-aside requirement	40,139
Qualifying expenditures made during the year	(40,139)
Amount of offsets for the year	<u>(0)</u>
Total	<u>0</u>
Balance of set-aside to be carried forward to next year	<u><u>\$ 0</u></u>

C. Budget Stabilization

Set-aside balance carried forward from the prior year	\$ 9,719
Current year set-aside requirement	20,069
Qualifying expenditures made during the year	0
Amount of offsets for the year	<u>0</u>
Total	<u>20,069</u>
Balance of set-aside to be carried forward to next year	<u><u>\$29,788</u></u>

D. School Bus Purchase

Set-aside balance carried forward from the prior year	\$41,785
Current year set-aside requirement	17,198
Qualifying expenditures made during the year	(13,782)
Amount of offsets for the year	<u>0</u>
Total	<u>3,416</u>
Balance of set-aside to be carried forward to next year	<u><u>\$45,201</u></u>

Amounts of offsets and qualifying disbursements presented in these tables were limited to those amounts necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements during the year, these amounts may not be used to reduce the set-aside requirements of future years, and are therefore not presented.

**FAIRLAWN LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

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, 1999.

B. Litigation

The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.



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

Fairlawn Local School District
Shelby County
18800 Johnston Road
Sidney, Ohio 45365

To the Board of Education:

We have audited the financial statements of Fairlawn Local School District, Shelby County, (the School District) as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated December 18, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 18, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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 School District in a separate letter December 18, 2000.

Fairlawn Local School District
Report of Independent Accountants on Compliance and
on Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 18, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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FAIRLAWN LOCAL SCHOOL DISTRICT

SHELBY 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
JANUARY 30, 2001**