



**Auditor of State
Betty Montgomery**

**FAIRFIELD LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Fairfield Local School District
Highland County
P.O. Box 347
Leesburg, Ohio 43135

To the Board of Education

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

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

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

As described in Note 3A, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated *January 8, 2004* on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

January 8, 2004

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

As management of the Fairfield Local School District, we offer readers of the Fairfield Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2003. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

Financial Highlights

- ‡ The assets of the School District exceeded its liabilities at June 30, 2003 by \$17,592,040. Of this amount, \$138,340 may be used to meet any of the School District's ongoing financial obligations.
- ‡ In total, net assets decreased by \$925,826 during fiscal 2003.
- ‡ General revenues accounted for \$5,004,911 or 81 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$1,177,563 or 19 percent of total revenues of \$6,182,474.
- ‡ The School District had \$7,108,300 in expenses; \$1,177,563 of these expenses were offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

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

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

Reporting the Fairfield Local School District as a Whole

The Statement of Net Assets and the Statements of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2003. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the Fairfield Local School District's Most Significant Funds

Fund Financial Statements

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2003 and 2002:

(Table 1)
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$2,926,452	\$3,270,008
Capital Assets, Net	19,363,117	20,052,359
Total Assets	22,289,569	23,322,367
Liabilities		
Long-Term Liabilities	(2,606,398)	(2,782,618)
Other Liabilities	(2,091,131)	(2,021,883)
Total Liabilities	(4,697,529)	(4,804,501)
Net Assets		
Invested in Capital Assets	16,873,117	17,437,359
Restricted	580,583	783,394
Unrestricted	138,340	297,113
Total Net Assets	\$17,592,040	\$18,517,866

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 1 is a comparison of governmental activities as of June 30, 2003 and 2002. Total net assets decreased by 3% primarily due to a decrease in invested in capital assets (net of related debt issued to acquire the assets). Capital assets are used to provide services to students and do not represent assets that may be used for future spending. Restricted net assets decreased mainly due to expenditures exceeding revenues for the year, thereby reducing available cash. Unrestricted net assets decreased due to additional staff added during the year, the addition of vision insurance covered completely by the School District, and an increase in the cost of providing maintenance and utilities for the new facilities.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

(Table 2)
Change in Net Assets

	2003
Revenues	
Program Revenues:	
Charges for Services	\$387,152
Operating Grants and Contributions	778,630
Capital Grants and Contributions	11,781
Total Program Revenues	1,177,563
General Revenues:	
Property Taxes	1,368,494
Grants and Entitlements not Restricted to Specific Programs	3,442,492
Gifts and Donations	1,440
Investment Earnings	16,390
Miscellaneous	176,095
Total General Revenues	5,004,911
Total Revenues	6,182,474
Program Expenses	
Instruction	
Regular	2,885,361
Special	435,722
Vocational	217,235
Support Services	
Pupils	224,510
Instructional Staff	617,205
Board of Education	27,711
Administration	719,003
Fiscal	300,909
Business	41,333
Operation and Maintenance of Plant	641,521
Pupil Transportation	404,941
Central	19,470
Operation of Non-Instructional Services:	
Other	3,660
Food Services	240,469
Extracurricular Activities	195,126
Interest and Fiscal Charges	134,124
Total Expenses	7,108,300
Decrease in Net Assets	(\$925,826)

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The Statement of Activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements. Comparisons to 2002 have not been made since they are not available.

(Table 3)

	Total Cost of Services 2003	Net Cost of Services 2003
	2003	2003
Instruction	\$3,538,318	\$2,943,481
Support Services	2,996,603	2,649,642
Operation of Non-Instructional Services	244,129	63,157
Extracurricular Activities	195,126	140,333
Interest and Fiscal Charges	134,124	134,124
Total Expenses	\$7,108,300	\$5,930,737

The School District's Funds

Information about the School District's major fund starts on page 10. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$6,150,371 and expenditures of \$6,685,421.

The fund balance in the General Fund decreased \$226,923. This decline was due to the addition of new teachers and aides along with the related benefits, vision insurance being offered to employees with the School District picking up 100% of the cost, the purchase of new buses and expenditures made to construct new ball fields which weren't covered under the Classroom Facilities program.

General Fund - Budget Highlights

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$12,384 above the final budgeted amount for the General Fund. This was largely due to actual expenditures being less than the amounts budgeted.

Fairfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

Capital Assets

At the end of fiscal year 2003 the School District had \$19,363,117 invested in capital assets.

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

	Governmental Activities	
	2003	2002
Land	\$399,200	\$675,537
Land Improvements	535,377	513,248
Buildings and Improvements	17,077,425	17,453,270
Furniture, Fixtures and Equipment	1,182,735	1,326,257
Vehicles	168,380	84,047
Totals	\$19,363,117	\$20,052,359

For more information on capital assets, see note 8 to the basic financial statements.

Debt

At June 30, 2003, the School District had \$2,490,000 in bonds outstanding, \$140,000 due within one year. Table 5 summarizes bonds outstanding:

(Table 5)
 Outstanding Debt, at Year End

	2003	2002
General Obligation Bonds:		
1981 11.25% School Improvement Bonds	\$55,000	\$105,000
1999 5.06% School Improvement Bonds	850,000	875,000
1999 5.04% School Improvement Bonds	1,585,000	1,635,000
Total	\$2,490,000	\$2,615,000

The School District's overall legal debt margin was \$2,887,279 with an unvoted debt margin of \$55,046 at June 30, 2003.

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

Fairfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Contacting the School District's Financial Management

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

Fairfield Local School District

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,282,265
Materials and Supplies Inventory	21,720
Intergovernmental Receivable	32,699
Taxes Receivable	1,563,611
Restricted Equity in Pooled cash and cash Equivelants	25,594
Cash and Cash Equivalents With Fiscal Agents	563
Capital Assets:	
Land	399,200
Depreciable Capital Assets, Net	<u>18,963,917</u>
<i>Total Assets</i>	<u>22,289,569</u>
Liabilities	
Accounts Payable	\$13,326
Accrued Wages and Benefits	494,997
Intergovernmental Payable	161,301
Deferred Revenue	1,410,542
Matured Interest Payable	563
Accrued Interest Payable	10,402
Long-Term Liabilities:	
Due Within One Year	178,172
Due in More Than One Year	<u>2,428,226</u>
<i>Total Liabilities</i>	<u>4,697,529</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	16,873,117
Restricted for:	
Capital Projects	9,917
Debt Service	422,301
Other Purposes	148,365
Unrestricted	<u>138,340</u>
<i>Total Net Assets</i>	<u><u>\$17,592,040</u></u>

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues			Net(Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
Instruction:					
Regular	\$2,885,361	\$218,426	\$61,455	\$11,500	(\$2,593,980)
Special	435,722	0	248,181	0	(187,541)
Vocational	217,235	0	54,994	281	(161,960)
Support Services:					
Pupils	224,510	0	2,122	0	(222,388)
Instructional Staff	617,205	0	101,644	0	(515,561)
Board of Education	27,711	0	0	0	(27,711)
Administration	719,003	0	0	0	(719,003)
Fiscal	300,909	0	0	0	(300,909)
Business	41,333	13,145	14,653	0	(13,535)
Operation and Maintenance of Plant	641,521	2,595	0	0	(638,926)
Pupil Transportation	404,941	0	207,802	0	(197,139)
Central	19,470	0	5,000	0	(14,470)
Operation of Non-Instructional Services:					
Other	3,660	0	0	0	(3,660)
Food Services	240,469	106,031	74,941	0	(59,497)
Extracurricular Activities	195,126	46,955	7,838	0	(140,333)
Interest and Fiscal Charges	134,124	0	0	0	(134,124)
Total Governmental Activities	\$7,108,300	\$387,152	\$778,630	\$11,781	(5,930,737)

General Revenues:	
Property Taxes Levied for:	
General Purposes	1,073,034
Debt Service	270,228
Capital Outlay	25,232
Grants and Entitlements not Restricted to Specific Programs	
Gifts and Donations	1,440
Investment Earnings	16,390
Miscellaneous	176,095
Total General Revenues	5,004,911
Change in Net Assets	(925,826)
Net Assets Beginning of Year - Note 3	18,517,866
Net Assets End of Year	<u><u>\$17,592,040</u></u>

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District

Balance Sheet
Governmental Funds
June 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$687,343	\$401,054	\$193,868	\$1,282,265
Cash and Cash Equivalents with Fiscal Agents	0	563	0	563
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	25,594	0	0	25,594
Receivables:				
Taxes	1,276,968	261,755	24,888	1,563,611
Intergovernmental	0	0	32,699	32,699
Interfund Receivable	61,509	0	0	61,509
Materials and Supplies Inventory	9,767	0	11,953	21,720
Total Assets	<u>\$2,061,181</u>	<u>\$663,372</u>	<u>\$263,408</u>	<u>\$2,987,961</u>
Liabilities				
Accounts Payable	\$12,314	\$0	\$1,012	\$13,326
Accrued Wages and Benefits	464,826	0	30,171	494,997
Interfund Payable	0	0	61,509	61,509
Intergovernmental Payable	93,153	0	4,148	97,301
Deferred Revenue	1,194,442	239,699	55,528	1,489,669
Matured Interest Payable	0	563	0	563
Total Liabilities	<u>1,764,735</u>	<u>240,262</u>	<u>152,368</u>	<u>2,157,365</u>
Fund Balances				
Reserved for Encumbrances	123,086	0	13,231	136,317
Reserved for Property Taxes	82,526	22,056	2,059	106,641
Reserved for Bus Purchases	25,594	0	0	25,594
Unreserved:				
Undesignated, Reported in:				
General Fund	65,240	0	0	65,240
Special Revenue Funds	0	0	87,950	87,950
Debt Service Funds	0	401,054	0	401,054
Capital Projects Funds	0	0	7,800	7,800
Total Fund Balances	<u>296,446</u>	<u>423,110</u>	<u>111,040</u>	<u>830,596</u>
Total Liabilities and Fund Balances	<u>\$2,061,181</u>	<u>\$663,372</u>	<u>\$263,408</u>	<u>\$2,987,961</u>

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$830,596

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets	22,758,247	
Accumulated depreciation	(3,395,130)	
Total capital assets	19,363,117	19,363,117

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Taxes	46,428	
Intergovernmental	32,699	79,127

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds. (64,000)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(2,490,000)	
Accrued interest on bonds	(10,402)	
Compensated absences	(116,398)	(2,616,800)

Net Assets of Governmental Activities \$17,592,040

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Debt Service	All Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$1,072,535	\$270,115	\$25,221	\$1,367,871
Intergovernmental	3,834,471	29,894	314,541	4,178,906
Interest	15,276	0	1,140	16,416
Tuition and Fees	218,426	0	4,491	222,917
Extracurricular Activities	0	0	55,609	55,609
Customer Services	0	0	106,031	106,031
Rent	2,595	0	0	2,595
Gifts and Donations	1,440	0	17,723	19,163
Miscellaneous	110,837	18,616	51,410	180,863
Total Revenues	5,255,580	318,625	576,166	6,150,371
Expenditures:				
Current:				
Instruction:				
Regular	2,440,392	0	113,711	2,554,103
Special	328,020	0	79,948	407,968
Vocational	188,940	0	1,500	190,440
Support Services:				
Pupils	196,182	0	2,001	198,183
Instructional Staff	341,853	0	105,565	447,418
Board of Education	27,711	0	0	27,711
Administration	638,747	0	0	638,747
Fiscal	261,195	9,465	888	271,548
Business	10,255	0	31,078	41,333
Operation and Maintenance of Plant	559,775	0	0	559,775
Pupil Transportation	443,442	0	0	443,442
Central	14,913	0	5,045	19,958
Operation of Non-Instructional Services:				
Other	3,660	0	0	3,660
Food Service	0	0	238,813	238,813
Extracurricular Activities	73,347	0	53,160	126,507
Capital Outlay	57,738	0	198,250	255,988
Debt Service:				
Principal	0	125,000	0	125,000
Interest and Fiscal Charges	1,335	133,492	0	134,827
Total Expenditures	5,587,505	267,957	829,959	6,685,421
Excess of Revenue Over (Under) Expenditures	(331,925)	50,668	(253,793)	(535,050)
Other Financing Sources:				
Proceeds from Sale of Capital Assets	105,002	0	0	105,002
Net Change in Fund Balances	(226,923)	50,668	(253,793)	(430,048)
Fund Balance at Beginning of Year - (Restated Note 3)	523,369	372,442	364,833	1,260,644
Fund Balance at End of Year	\$296,446	\$423,110	\$111,040	\$830,596

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds (\$430,048)

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

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

Fixed asset additions	418,315	
Depreciation expense	<u>(710,400)</u>	
Excess of capital outlay under depreciation expense		(292,085)

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

Proceeds from Sale of Capital Assets	(105,002)	
Loss on Disposal of Capital Assets	<u>(292,155)</u>	
		(397,157)

Because, some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes	623	
Intergovernmental	<u>31,480</u>	
		32,103

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

Bond principal retirement		125,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest	703	
Decrease in compensated absences	51,220	
Increase in intergovernmental payable	<u>(15,562)</u>	
Total additional expenditures		<u>36,361</u>

Change in Net Assets of Governmental Activities (\$925,826)

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$1,148,604	\$1,065,638	\$1,065,638	\$0
Intergovernmental	3,781,055	3,834,471	3,834,471	0
Interest	15,087	15,300	15,276	(24)
Tuition and Fees	215,383	218,426	218,426	0
Rent	2,559	2,595	2,595	0
Gifts and Donations	1,420	1,440	1,440	0
Miscellaneous	387,075	392,543	392,549	6
Total Revenues	5,551,183	5,530,413	5,530,395	(18)
Expenditures:				
Current:				
Instruction:				
Regular	2,144,541	2,460,062	2,460,001	61
Special	285,318	320,689	320,944	(255)
Vocational	206,862	215,308	213,653	1,655
Support Services:				
Pupils	179,053	197,968	197,837	131
Instructional Staff	294,659	343,961	343,374	587
Board of Education	25,133	20,897	20,897	0
Administration	550,198	640,719	640,900	(181)
Fiscal	255,987	286,317	286,780	(463)
Business	8,788	10,275	10,275	0
Operation and Maintenance of Plant	534,805	591,018	580,240	10,778
Pupil Transportation	401,510	450,649	450,560	89
Central	15,703	18,361	18,361	0
Operation of Non-Instructional Services	3,236	3,690	3,690	0
Extracurricular Activities	62,895	73,539	73,539	0
Capital Outlay	69,679	79,681	79,681	0
Total Expenditures	5,038,367	5,713,134	5,700,732	12,402
Excess of Revenues Over (Under) Expenditures	512,816	(182,721)	(170,337)	12,384
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	0	105,002	105,002	0
Refund of Prior Year Expenditures	0	4,219	4,219	0
Advances Out	0	(61,509)	(61,509)	0
Total Other Financing Sources (Uses)	0	47,712	47,712	0
Net Change in Fund Balance	512,816	(135,009)	(122,625)	12,384
Fund Balance at Beginning of Year	547,984	547,984	547,984	0
Prior Year Encumbrances Appropriated	152,175	152,175	152,175	0
Fund Balance at End of Year	\$1,212,975	\$565,150	\$577,534	\$12,384

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$22,564	\$21,807
Liabilities		
Undistributed Monies	0	21,807
<i>Total Liabilities</i>	0	\$21,807
Net Assets		
Held in Trust for Scholarships	22,564	
<i>Total Net Assets</i>	\$22,564	

See Accompanying Notes to the Basic Financial Statements

Fairfield Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$5,000
Interest	469
<i>Total Additions</i>	5,469
Deductions:	
Scholarships Awarded	600
<i>Change in Net Assets</i>	4,869
<i>Net Assets Beginning of Year</i>	17,695
<i>Net Assets End of Year</i>	\$22,564

See Accompanying Notes to the Basic Financial Statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The Fairfield Local School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 53 square miles. It is located in Highland County and Clinton County, and includes all of the Villages of Leesburg and Highland and all of Fairfield Township, portions of Penn and Liberty Townships and a portion of Wayne Township in Clinton County. The School District is staffed by 41 non-certificated employees, 52 certificated teaching personnel and 7 administrative employees who provide services to 845 students and other community members. The School District currently operates 1 instructional building and 1 bus garage.

Reporting Entity:

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

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

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District: Villages of Highland and Leesburg, Fairfield Alumni Association, Fairfield Athletic Boosters, Fairfield Music Association, Fairfield Parent Teacher Organization, and Fairfield Young Adult Farmers.

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

The School District participates in the three jointly governed organizations and one insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

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

C. Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

D. Basis of Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Non-exchange Transactions:

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue:

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

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

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

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 2003 amounted to \$15,276, which includes \$6,766 assigned from other School District funds.

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

F. Inventory

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

Inventories consist of purchased food and consumable supplies.

G. Restricted Assets

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	8 - 10 years
Vehicles	10 years
Textbooks	5 years

I. Interfund Balances

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

J. Compensated Absences

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Interfund Transactions

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

O. Estimates

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

P. Budgetary Process

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

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

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

A. Changes in Accounting Principles

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

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

The government-wide financial statements split programs between governmental and business-type activities. The School District has no business-type activities. The beginning net asset amount for governmental activities reflects the following changes in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. *GASB Statement No. 38* modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability for compensated absences that were not mature as of June 30, 2002.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES (Continued)

B. Restatement of Fund Balances

The restatements for GASB *Statement No. 34*, and *GASB Interpretation No. 6* had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	<u>General</u>	<u>Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2002	\$508,256	\$372,442	\$351,577	\$1,232,275
Interpretation No. 6 Adjustments	15,113	0	0	15,113
Fund Reclassifications	0	0	13,256	13,256
Adjusted Fund Balance, June 30, 2002	<u>\$523,369</u>	<u>\$372,442</u>	<u>\$364,833</u>	1,260,644
GASB No. 34 Adjustments:				
Deferred Assets:				
Intergovernmental Receivables				1,219
Delinquent Property Taxes				45,805
Capital Assets				20,052,359
Intergovernmental Payable				(48,438)
Accrued Interest Payable				(11,105)
Long-Term Liabilities:				
Bonds Payable				(2,615,000)
Compensated Absences				<u>(167,618)</u>
Governmental Activities Net Assets, June 30, 2002				<u>\$18,517,866</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$226,923)
Adjustments:	
Revenue Accruals	279,034
Expenditure Accruals	22,176
Encumbrances	(135,403)
Advances	<u>(61,509)</u>
Budget Basis	<u><u>(\$122,625)</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,349,812 and the bank balance was \$1,406,864. Of the bank balance, \$100,107 was covered by federal depository insurance and \$1,306,757 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

	<u>Carrying/Fair Value</u>
STAR Ohio	<u><u>\$2,981</u></u>

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

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/ Deposits	Investments
Statement of Net Assets or Statement of Fiduciary Net Assets	\$1,352,793	\$0
Investments:		
Star Ohio	(2,981)	2,981
GASB Statement No. 3	\$1,349,812	\$2,981

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - PROPERTY TAXES (continued)

The School District receives property taxes from Highland and Clinton Counties. The County Auditor's periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$82,526 in the general fund, \$22,056 in the debt service fund, and \$2,059 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$75,629 in the general fund, \$20,231 in the debt service fund, and \$1,889 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second - Half Collections		2003 First - Half Collections	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Agricultural/Residential and Other Real Estate	\$44,291,240	82.97%	\$46,023,510	83.62%
Public Utility Personal	2,388,740	4.47%	2,485,920	4.51%
Tangible Personal Property	6,701,520	12.56%	6,536,890	11.87%
Total Assessed Value	<u>\$53,381,500</u>	<u>100.00%</u>	<u>\$55,046,320</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.35		\$32.35	

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, intergovernmental grants, and interfund. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Assistive Technology Infusion	\$14,676
Title I	8,254
Special Education	9,769
Total Intergovernmental Receivables	\$32,699

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/03</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$675,537	\$0	(\$276,337)	\$399,200
Capital Assets Being Depreciated:				
Land Improvements	613,075	57,738	(45,591)	625,222
Buildings and Improvements	18,330,185	201,190	(273,717)	18,257,658
Furniture, Fixtures and Equipment	1,892,820	48,753	0	1,941,573
Vehicles	453,085	110,634	0	563,719
Textbooks	970,875	0	0	970,875
Totals Capital Assets, Being Depreciated	22,260,040	418,315	(319,308)	22,359,047
Less Accumulated Depreciation:				
Land Improvements	(99,827)	(34,954)	44,936	(89,845)
Building and Improvements	(876,915)	(456,870)	153,552	(1,180,233)
Furniture, Fixtures and Equipment	(566,563)	(192,275)	0	(758,838)
Vehicles	(369,038)	(26,301)	0	(395,339)
Textbooks	(970,875)	0	0	(970,875)
Total Accumulated Depreciation	(2,883,218)	(710,400)	198,488	(3,395,130)
Total Capital Assets Being Depreciated, Net	19,376,822	(292,085)	(120,820)	18,963,917
Governmental Activities Capital Assets, Net	\$20,052,359	(\$292,085)	(\$397,157)	\$19,363,117

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$265,116
Special	25,871
Vocational	19,870
Support Services:	
Pupil	21,903
Instructional Staff	133,663
Administration	60,140
Fiscal	17,637
Operation and Maintenance of Plant	73,031
Pupil Transportation	45,000
Operation of Non-Instructional Services - Food Services	48,169
Total Depreciation Expense	<u><u>\$710,400</u></u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Love Insurance Agency for property insurance and inland marine coverage. Fleet insurance and liability insurance is provided by Nationwide Insurance Company.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - RISK MANAGEMENT (continued)

Insurance coverage provided includes the following:

Building and contents (\$1,000 Deductable)	\$19,265,117
Fleet Insurance Coverages	
Combined single Limit Liability	\$1,000,000
Extended MED Pay	\$5,000,000
Uninsured Motorist	\$50,000
Comprehensive	ACV
Collision	ACV or cost of repair, whichever is less
	This coverage includes the driver education car for a year.
General Liability	
Each Occurrence Limit	\$1,000,000
General Aggregate Limit	\$3,000,000
Excess Liability each occurrence limit	\$2,000,000
Excess Liability aggregate limit	\$2,000,000
Fire Damage Limit (any one fire)	\$500,000
Medical Expense (per person/accident)	\$10,000
Medical Expense (each accident)	\$10,000

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

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$91,537, \$48,738 and \$25,313 respectively; 55.57 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

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

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

NOTE 10 - PENSION PLANS (continued)

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$350,707, \$192,488, and \$257,929, respectively; 83.21 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, all of the School District's members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$26,977 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year-ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$82,855.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel except the Superintendent and Treasurer who can accrue up to 230 days maximum. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 35 days.

B. Health Care Benefits

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

C. Retirement Incentive

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

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

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

The following restrictions apply to this incentive:

1. The employee must be eligible for and taking initial regular retirement under either STRS or SERS. (Persons previously retired under STRS or SERS are ineligible.)
2. This incentive expires on June 30, 2005.
3. Retirement date must be during this contract term.

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 12 - EMPLOYEE BENEFITS (continued)

4. The employee must give the Board of Education a minimum of ninety (90) days written notice of his/her intent to retire.
5. An employee who retires during the school year receives no partial credit for that year in terms of bonus calculation; the bonus will be based on the last three complete years of service.
6. Compensation upon which the bonus is calculated includes all payments made to the employee from which retirement has been withheld.

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

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03	Amounts Due in One Year
<i><u>Governmental Activities:</u></i>					
School Improvement Bonds 1981 11.25%	\$105,000	\$0	\$50,000	\$55,000	\$55,000
School Improvement Bonds 1999 5.06%	875,000	0	25,000	850,000	30,000
School Improvement Bonds 1999 5.04%	1,635,000	0	50,000	1,585,000	55,000
Compensated Absences	167,618	21,861	73,081	116,398	38,172
Total Governmental Activities Long-Term Obligations	<u>\$2,782,618</u>	<u>\$21,861</u>	<u>\$198,081</u>	<u>\$2,606,398</u>	<u>\$178,172</u>

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds 1981

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

School Improvement Bonds 1999

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

School Improvement Bonds 1999

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

The general obligation bonds will be paid from property tax revenues received in the debt service fund. Compensated absences will be paid from the general and food service funds.

The School District's overall legal debt margin was \$2,887,279 with an unvoted debt margin of \$55,046 at June 30, 2003.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$140,000	\$124,244	\$264,244
2005	85,000	117,516	202,516
2006	85,000	113,776	198,776
2007	90,000	109,838	199,838
2008	100,000	105,465	205,465
2009 - 2013	555,000	451,009	1,006,009
2014 - 2018	710,000	288,828	998,828
2019 - 2022	725,000	79,324	804,324
Total	<u>\$2,490,000</u>	<u>\$1,390,000</u>	<u>\$3,880,000</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$60,277 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

C. Great Oaks Institute of Technology and Career Development

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

NOTE 15 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

NOTE 16 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year-ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

Fairfield Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	(\$115,950)	\$0	\$20,458
Current Year Set-aside Requirement	112,596	112,596	0
Current Year Offsets	0	(329,972)	0
Qualifying Disbursements	<u>(297,713)</u>	<u>(169,300)</u>	<u>(20,458)</u>
Set-aside Balance Carried Forward to Future Years	<u>(\$301,067)</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

NOTE 18 - ACCOUNTABILITY

At June 30, 2003, the lunchroom, Title VI-B, Title I, and the Miscellaneous Federal Grants Special Revenue Funds had deficit fund balances of \$44,584, \$7,607, \$2,599, and \$11,995 respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

NOTE 19 – INTERFUND RECEIVABLES/PAYABLES

As of June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

		<u>Receivable General Fund</u>
Payable	Food Service	\$47,000
	Assistive Technology Infusion Grant	<u>14,509</u>
	Total	<u>\$61,509</u>

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

NOTE 20 - 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, 2003.

B. Litigation

The School District is not party to any legal proceeding.

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**FAIRFIELD LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY, OHIO**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$27,088	\$0	\$27,088
National School Lunch Program	LL-P4-02 LL-P4-03	10.555	45,677	0	45,677	0
Total U.S. Department of Agriculture - Nutrition Cluster			45,677	27,088	45,677	27,088
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI B)	6B-SF-02	84.027	65,587	0	10,218	0
Handicapped Preschool		84.173	0	0	62,060	0
Total Special Education Cluster			65,587	0	72,278	0
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-03	84.010	70,649	0	80,161	0
Innovative Educational Program Strategies	C2-S1-03	84.298	4,425	0	6,855	0
Drug-Free Schools Grant	DR-S1-02 DR-S1-03	84.186	4,775	0	3,608	0
Eisenhower Prof Development State Grant	MS-S1-02	84.281	0	0	153	0
Education Systemic Improvement Grants		84.276	0	0	24,242	0
Assistive Infusion Project		84.343	0	0	11,995	0
Title IID, Technology Fund	TJ-S1-03	84.318	2,160	0	2,160	0
Improving Teacher Quality State Grants	TR-S1-03	84.367	32,100	0	27,713	0
Total Department of Education			179,696	0	229,165	0
Totals			225,373	27,088	274,842	27,088

The accompanying notes to this schedule are an integral part of this schedule.

**FAIRFIELD LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Fairfield Local School District
Highland County
P.O. Box 347
Leesburg, Ohio 45135

To the Board of Education:

We have audited the financial statements of the Fairfield Local School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 8, 2004, which indicated that the District had implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, GASB Statement No. 37, GASB Statement No. 38, and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 8, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 8, 2004.

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

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

Betty Montgomery
Auditor of State

January 8, 2004



Auditor of State Betty Montgomery

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

Fairfield Local School District
Highland County
P.O. Box 347
Leesburg, Ohio 45135

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

January 8, 2004

**FAIRFIELD LOCAL SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	ESEA Title 1 - CFDA#84.010, Child Nutrition Cluster - CFDA#'s 10.550, 10.553
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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FAIRFIELD LOCAL SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2004**