

**Fairfield Union  
Local School District**

Fairfield County

**Financial Statements**

June 30, 2004





**Auditor of State  
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Fairfield Union Local School District, Fairfield County, prepared by Kennedy, Cottrell & Associates, LLC, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

February 1, 2005

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
December 30, 2004

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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The discussion and analysis of the Fairfield Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- ▶ The assets of Fairfield Union Local School District exceeded its liabilities at June 30, 2004 by \$4,139,269. Of this amount, \$3,418,720 represents the difference between capital assets and related debt and \$831,650 represents net asset amounts restricted for specific purposes. The remaining (\$111,101) represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$278,453, which represents a 7.21 percent increase from 2003.
- ▶ General revenues accounted for \$14,366,819 or 90.96 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,427,706 or 9.04 percent of total revenues of \$15,794,525.
- ▶ The District had \$15,516,072 in expenses related to governmental activities; only \$1,427,706 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$14,366,819 were used to provide for the remainder of these programs.
- ▶ The District recognizes one major governmental fund: the General Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$13,961,287 in revenues and \$14,143,164 in expenditures in fiscal year 2004.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield Union Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

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

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the General Fund.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

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

**Governmental Funds**

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

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

**Proprietary Funds**

The District's two proprietary funds are internal service funds. Since the internal service funds operate on a break-even, cost-reimbursement basis, the District reports them as proprietary funds using the full accrual basis of accounting. Since the internal service funds exclusively benefit governmental functions, they have been included with governmental activities in the government-wide financial statements.

**Fiduciary Funds**

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's Government-wide financial statements because the 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.

**Notes to the Basic Financial Statements**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2004 compared to fiscal year 2003:

Table 1  
**Net Assets**

|                                                 | <u>Governmental Activities</u> |                    |
|-------------------------------------------------|--------------------------------|--------------------|
|                                                 | <u>2004</u>                    | <u>2003</u>        |
| <u>Assets:</u>                                  |                                |                    |
| Current and Other Assets                        | \$7,174,435                    | \$6,667,215        |
| Capital Assets, Net                             | 6,166,728                      | 5,500,666          |
| <i>Total Assets</i>                             | <u>13,341,163</u>              | <u>12,167,881</u>  |
| <u>Liabilities:</u>                             |                                |                    |
| Long-Term Liabilities                           | 4,039,676                      | 3,312,308          |
| Other Liabilities                               | 5,162,218                      | 4,994,757          |
| <i>Total Liabilities</i>                        | <u>9,201,894</u>               | <u>8,307,065</u>   |
| <u>Net Assets:</u>                              |                                |                    |
| Invested in Capital Assets, Net of Related Debt | 3,418,720                      | 3,150,303          |
| Restricted                                      | 831,650                        | 813,328            |
| Unrestricted                                    | (111,101)                      | (102,815)          |
| <i>Total Net Assets</i>                         | <u>\$4,139,269</u>             | <u>\$3,860,816</u> |

Current and other assets increased \$507,220 from fiscal year 2004 due to a increase in cash and cash equivalents held by the District. Capital assets increased by only \$666,062 or 12.11 percent.

Current (other) liabilities increased by only \$167,461 or 3.35 percent.

Long-term liabilities increased by \$727,368 due to the addition of four new capital leases.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. This accounts for 82.59 percent of net assets. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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The District's next largest portion of net assets is restricted net assets. This accounts for 20.09 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The remaining balance of (\$111,101) or (2.68) percent is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2004 and provides a comparison to fiscal year 2003.

Table 2  
**Changes in Net Assets**

|                                      | Governmental Activities |                   |
|--------------------------------------|-------------------------|-------------------|
|                                      | 2004                    | 2003              |
| <b><u>Revenues:</u></b>              |                         |                   |
| <i>Program Revenue:</i>              |                         |                   |
| Charges for Services and Sales       | \$534,481               | \$547,175         |
| Operating Grants and Contributions   | 753,725                 | 838,193           |
| Capital Grants and Contributions     | 139,500                 | 0                 |
| <i>General Revenue:</i>              |                         |                   |
| Property Tax                         | 3,650,056               | 4,528,627         |
| Income Tax                           | 1,280,737               | 0                 |
| Unrestricted Grants and Entitlements | 9,299,813               | 8,497,376         |
| Investment Earnings                  | 14,615                  | 93,794            |
| Miscellaneous                        | 121,598                 | 163,173           |
| <i>Total Revenues</i>                | <u>15,794,525</u>       | <u>14,668,338</u> |
| <b><u>Expenses:</u></b>              |                         |                   |
| <i>Program Expenses:</i>             |                         |                   |
| <i>Instruction:</i>                  |                         |                   |
| Regular                              | 7,287,439               | 6,402,365         |
| Special                              | 1,636,324               | 1,534,696         |
| Vocational                           | 328,446                 | 318,646           |
| Other                                | 18,784                  | 24,325            |

(Continued)

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

Table 2  
**Changes in Net Assets**  
(Continued)

|                                                 | 2004                      | 2003                      |
|-------------------------------------------------|---------------------------|---------------------------|
| <i>Support Services:</i>                        |                           |                           |
| Pupils                                          | 761,675                   | 704,796                   |
| Instructional Staff                             | 607,976                   | 588,068                   |
| Board of Education                              | 29,570                    | 19,892                    |
| Administration                                  | 1,032,959                 | 991,294                   |
| Fiscal                                          | 351,799                   | 317,416                   |
| Operation and Maintenance of Plant              | 1,226,831                 | 1,275,917                 |
| Pupil Transportation                            | 896,822                   | 932,158                   |
| Central                                         | 101,371                   | 119,714                   |
| <i>Operation of Non-Instructional Services:</i> |                           |                           |
| Food Service                                    | 545,867                   | 503,831                   |
| Other                                           | 34,096                    | 0                         |
| Extracurricular Activities                      | 547,486                   | 544,950                   |
| Interest and Fiscal Charges                     | 108,627                   | 122,155                   |
| Miscellaneous                                   | 0                         | 605,744                   |
| <i>Total Expenses</i>                           | <u>15,516,072</u>         | <u>15,005,927</u>         |
| <i>Change in Net Assets before Transfers</i>    | 278,453                   | (337,589)                 |
| <i>Net Transfers</i>                            | <u>0</u>                  | <u>80,322</u>             |
| <i>Change in Net Assets</i>                     | 278,453                   | (257,267)                 |
| Net Assets – Beginning of Year                  | <u>3,860,816</u>          | <u>4,118,083</u>          |
| Net Assets – End of Year                        | <u><u>\$4,139,269</u></u> | <u><u>\$3,860,816</u></u> |

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration, and Pupil Transportation. These programs account for 77.86 percent of the total governmental activities. Regular Instruction, which accounts for 46.97 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 10.55 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 7.91 percent of the total, represent costs associated with operating and maintaining the District's facilities. Administration, which represents 6.65 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 5.78 percent of the total, represents costs associated with providing transportation services for students between home and school and to school activities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 81.99 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 22.95 percent and intergovernmental revenue made up 56.50 percent of the total revenue for the governmental funds in fiscal year 2004.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2004, the District received \$7,514,309 through the State's foundation program, which represents 47.68 percent of the total revenue for the governmental funds. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 59.75 percent of governmental program expenses. Support services expenses make up 32.28 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004 compared with fiscal year 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

Table 3  
**Net Cost of Governmental Activities**

|                                            | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> |
|--------------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|                                            | <u>2004</u>                       | <u>2004</u>                     | <u>2003</u>                       | <u>2003</u>                     |
| <i>Program Expenses:</i>                   |                                   |                                 |                                   |                                 |
| Instruction                                | \$9,270,993                       | \$8,636,746                     | \$8,280,032                       | \$7,742,356                     |
| Support Services                           | 5,009,003                         | 4,913,129                       | 4,949,255                         | 4,872,201                       |
| Operation of Non-Instructional<br>Services | 579,963                           | 41,421                          | 503,831                           | (26,123)                        |
| Extracurricular Activities                 | 547,486                           | 388,443                         | 544,950                           | 304,266                         |
| Interest and Fiscal Charges                | 108,627                           | 108,627                         | 122,115                           | 122,115                         |
| Miscellaneous                              | 0                                 | 0                               | 605,744                           | 605,744                         |
| Total Expenses                             | <u>\$15,516,072</u>               | <u>\$14,088,366</u>             | <u>\$15,005,927</u>               | <u>\$13,620,559</u>             |

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$16,803,245 and expenditures and other financing uses of \$16,867,286.

Total governmental funds fund balance decreased by \$64,041. The decrease in fund balance for the year was most significant in the General Fund, which decreased by \$151,094 during fiscal year 2004. The General Fund had increased revenues and expenditures during fiscal year 2004. The most significant change in revenue was intergovernmental revenue, which increased \$533,019. Regular instruction is the expenditure that increased most significantly by \$567,683.

The District should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**Budget Highlights - General Fund**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the District amended its General Fund budget five times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$13,674,320 representing a \$1,046,645 increase from the original budget estimates \$12,627,675. The final budget reflected a 8.2 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of intergovernmental revenue. For the General Fund, the final budget basis expenditures were \$13,976,986 representing a decrease of \$283,697 from the original budget expenditures of \$14,260,683. The final budget reflected only a 1.34 percent decrease from the original budgeted amount.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the District had \$10.5 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, vehicles, and library books and textbooks, of which all was in governmental activities. That total carries an accumulated depreciation of \$4.3 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4  
**Capital Assets & Accumulated Depreciation at June 30, 2004**

|                                       | <u>Governmental Activities</u> |                    |
|---------------------------------------|--------------------------------|--------------------|
|                                       | <u>2004</u>                    | <u>2003</u>        |
| <i>Nondepreciable Capital Assets:</i> |                                |                    |
| Land                                  | \$293,482                      | \$198,228          |
| Construction in Progress              | 762,193                        | 0                  |
| <i>Depreciable Capital Assets:</i>    |                                |                    |
| Buildings and Improvements            | 5,182,792                      | 5,012,457          |
| Furniture, Fixtures and Equipment     | 2,422,208                      | 2,495,817          |
| Vehicles                              | 1,157,439                      | 1,157,439          |
| Library Books and Textbooks           | 726,092                        | 733,494            |
| <i>Total Capital Assets</i>           | <u>10,544,206</u>              | <u>9,597,435</u>   |
| <i>Less Accumulated Depreciation:</i> |                                |                    |
| Buildings and Improvements            | 2,252,488                      | 2,206,284          |
| Furniture, Fixtures and Equipment     | 1,208,656                      | 1,150,051          |
| Vehicles                              | 745,274                        | 649,985            |
| Library Books and Textbooks           | 171,060                        | 90,449             |
| <i>Total Accumulated Depreciation</i> | <u>4,377,478</u>               | <u>4,096,769</u>   |
| Capital Assets, Net                   | <u>\$6,166,728</u>             | <u>\$5,500,666</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

**Debt Administration**

At June 30, 2004, the District had \$1,702,000 in general obligation debt outstanding with \$225,000 due within one year. Table 5 summarizes bonds and notes outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5  
**Outstanding Debt, Governmental Activities at Year End**

| Purpose                  | 2004        | 2003        |
|--------------------------|-------------|-------------|
| Energy Conservation Note | \$645,000   | \$780,000   |
| Bonds – Buildings        | 890,000     | 925,000     |
| Bonds – Buses            | 167,000     | 212,000     |
| Total                    | \$1,702,000 | \$1,917,000 |

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

**Current Issues**

Although considered a mid-wealth district, Fairfield Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Over half of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up nearly 75 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning and the passage of a building levy have permitted the District to provide a quality education for our students along with renovated facilities for the future.

In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. On August 14, 2003 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2003 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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The Ohio General Assembly has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). Seventy (70) percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2006; after this a phase out formula would begin.

The Fairfield Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes sixty (60) percent of the District's real estate valuation.

Commercial growth saw an increase in assessed valuation in calendar 2004. This was mainly due to increased valuation of the small businesses located throughout the District.

On November 2, 2004, voters of the Fairfield Union Local School District approved an \$8,000,000 Bond Issue. This issue represents the first phase of a two phased Facilities Master Plan for the District. The entire plan, if fully implemented, will result in two new elementary schools – one at Bremen and one at Pleasantville, and a new High School to be located immediately east of the current Junior-Senior High School Building.

Phase I of the project will retire short term lease purchase agreements, provide some renovation to the current Junior-Senior High School Building, and begin the design process for the new buildings.

Phase II of the project is expected to be submitted to the voters in 2005. If approved by the voters, Phase II will authorize an additional Bond Issue of about \$15,000,000. The scope of Phase II will include the completion of the renovations to the Junior-Senior High Building, and the completion of the design, bidding and construction of three new buildings.

Finally, if approved by the voters, Phase II will qualify the District to receive a grant of about \$38,000,000, which will fund about two-thirds of the entire Facilities Master Plan.

***FAIRFIELD UNION LOCAL SCHOOL DISTRICT***

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Kevin D. Miller, Treasurer of Fairfield Union Local School Board of Education, 457 East Main Street, P.O. Box 93, West Rushville, OH 43163.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*June 30, 2004*

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|                                                 | Governmental<br>Activities |
|-------------------------------------------------|----------------------------|
| <u><i>Assets:</i></u>                           |                            |
| Equity in Pooled Cash and Cash Equivalents      | \$2,020,555                |
| Cash and Cash Equivalents with Fiscal Agents    | 1,067,205                  |
| Property Taxes Receivable                       | 3,464,334                  |
| Income Taxes Receivable                         | 504,983                    |
| Accounts Receivable                             | 2,358                      |
| Intergovernmental Receivable                    | 19,775                     |
| Accrued Interest Receivable                     | 1,289                      |
| Prepaid Items                                   | 18,876                     |
| Inventory Held for Resale                       | 6,567                      |
| Materials and Supplies Inventory                | 68,493                     |
| Nondepreciable Capital Assets                   | 1,130,510                  |
| Depreciable Capital Assets, Net                 | 5,036,218                  |
|                                                 | <hr/>                      |
| <i>Total Assets</i>                             | 13,341,163                 |
| <br><u><i>Liabilities:</i></u>                  |                            |
| Accounts Payable                                | 108,657                    |
| Accrued Wages and Benefits                      | 1,495,787                  |
| Contracts Payable                               | 180,544                    |
| Intergovernmental Payable                       | 441,837                    |
| Accrued Interest Payable                        | 9,738                      |
| Claims Payable                                  | 134,002                    |
| Deferred Revenue                                | 2,791,653                  |
| <i>Long-Term Liabilities:</i>                   |                            |
| Due within One Year                             | 395,027                    |
| Due in More Than One Year                       | 3,644,649                  |
|                                                 | <hr/>                      |
| <i>Total Liabilities</i>                        | 9,201,894                  |
| <br><u><i>Net Assets:</i></u>                   |                            |
| Invested in Capital Assets, Net of Related Debt | 3,418,720                  |
| <i>Restricted for:</i>                          |                            |
| Capital Projects                                | 423,517                    |
| Debt Service                                    | 109,085                    |
| Other Purposes                                  | 299,048                    |
| Unrestricted                                    | (111,101)                  |
|                                                 | <hr/>                      |
| <i>Total Net Assets</i>                         | <u><u>\$4,139,269</u></u>  |

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2004*

|                                                 | Program Revenues    |                                |                                    | Governmental Activities | Net (Expense) Revenue and Changes in Net Assets |
|-------------------------------------------------|---------------------|--------------------------------|------------------------------------|-------------------------|-------------------------------------------------|
|                                                 | Expenses            | Charges for Services and Sales | Operating Grants and Contributions |                         |                                                 |
| <b><u>Governmental Activities:</u></b>          |                     |                                |                                    |                         |                                                 |
| <i>Instruction:</i>                             |                     |                                |                                    |                         |                                                 |
| Regular                                         | \$7,287,439         | \$0                            | \$95,676                           | \$95,500                | (\$7,096,263)                                   |
| Special                                         | 1,636,324           | 0                              | 443,071                            | 0                       | (1,193,253)                                     |
| Vocational                                      | 328,446             | 0                              | 0                                  | 0                       | (328,446)                                       |
| Other                                           | 18,784              | 0                              | 0                                  | 0                       | (18,784)                                        |
| <i>Support Services:</i>                        |                     |                                |                                    |                         |                                                 |
| Pupil                                           | 761,675             | 0                              | 0                                  | 0                       | (761,675)                                       |
| Instructional Staff                             | 607,976             | 0                              | 28,188                             | 44,000                  | (535,788)                                       |
| Board of Education                              | 29,570              | 0                              | 0                                  | 0                       | (29,570)                                        |
| Administration                                  | 1,032,959           | 0                              | 6,976                              | 0                       | (1,025,983)                                     |
| Fiscal                                          | 351,799             | 0                              | 0                                  | 0                       | (351,799)                                       |
| Operation and Maintenance of Plant              | 1,226,831           | 0                              | 1,710                              | 0                       | (1,225,121)                                     |
| Pupil Transportation                            | 896,822             | 0                              | 0                                  | 0                       | (896,822)                                       |
| Central                                         | 101,371             | 0                              | 15,000                             | 0                       | (86,371)                                        |
| <i>Operation of Non-Instructional Services:</i> |                     |                                |                                    |                         |                                                 |
| Food Services                                   | 545,867             | 375,438                        | 157,327                            | 0                       | (13,102)                                        |
| Other                                           | 34,096              | 0                              | 5,777                              | 0                       | (28,319)                                        |
| Extracurricular Activities                      | 547,486             | 159,043                        | 0                                  | 0                       | (388,443)                                       |
| Interest and Fiscal Charges                     | 108,627             | 0                              | 0                                  | 0                       | (108,627)                                       |
| <b>Total Governmental Activities</b>            | <b>\$15,516,072</b> | <b>\$534,481</b>               | <b>\$753,725</b>                   | <b>\$139,500</b>        | <b>(14,088,366)</b>                             |

**General Revenues:**

*Property Taxes Levied for:*

|                  |           |
|------------------|-----------|
| General Purposes | 3,339,994 |
| Debt Service     | 90,582    |
| Capital Outlay   | 219,480   |

*Income Taxes Levied for:*

|                                                             |           |
|-------------------------------------------------------------|-----------|
| General Purposes                                            | 1,280,737 |
| Grants and Entitlements not Restricted to Specific Programs | 9,299,813 |
| Investment Earnings                                         | 14,615    |
| Miscellaneous                                               | 121,598   |

*Total General Revenues*

14,366,819

Change in Net Assets

278,453

*Net Assets at Beginning of Year - As Restated (See Note 3)*

3,860,816

*Net Assets at End of Year*

\$4,139,269

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

|                                               | General            | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-----------------------------------------------|--------------------|--------------------------------|--------------------------------|
| <b><u>Assets:</u></b>                         |                    |                                |                                |
| Equity in Pooled Cash and Cash Equivalents    | \$832,249          | \$1,167,501                    | \$1,999,750                    |
| Property Taxes Receivable                     | 3,166,573          | 297,761                        | 3,464,334                      |
| Income Tax Receivable                         | 504,983            | 0                              | 504,983                        |
| Accounts Receivable                           | 2,358              | 0                              | 2,358                          |
| Intergovernmental Receivable                  | 0                  | 19,775                         | 19,775                         |
| Accrued Interest Receivable                   | 1,289              | 0                              | 1,289                          |
| Prepaid Items                                 | 18,876             | 0                              | 18,876                         |
| Inventory Held for Resale                     | 0                  | 6,567                          | 6,567                          |
| Materials and Supplies Inventory              | 66,262             | 2,231                          | 68,493                         |
| <i>Total Assets</i>                           | <u>\$4,592,590</u> | <u>\$1,493,835</u>             | <u>\$6,086,425</u>             |
| <b><u>Liabilities and Fund Balances:</u></b>  |                    |                                |                                |
| <b><u>Liabilities:</u></b>                    |                    |                                |                                |
| Accounts Payable                              | \$55,245           | \$53,412                       | \$108,657                      |
| Accrued Wages and Benefits                    | 1,401,231          | 94,556                         | 1,495,787                      |
| Contracts Payable                             | 0                  | 180,544                        | 180,544                        |
| Intergovernmental Payable                     | 296,516            | 22,164                         | 318,680                        |
| Compensated Absences Payable                  | 69,776             | 0                              | 69,776                         |
| Deferred Revenue                              | 2,783,125          | 261,862                        | 3,044,987                      |
| <i>Total Liabilities</i>                      | <u>4,605,893</u>   | <u>612,538</u>                 | <u>5,218,431</u>               |
| <b><u>Fund Balances:</u></b>                  |                    |                                |                                |
| Reserved for Encumbrances                     | 557                | 125,124                        | 125,681                        |
| Reserved for Property Taxes                   | 383,448            | 35,899                         | 419,347                        |
| <i>Unreserved, Undesignated, Reported in:</i> |                    |                                |                                |
| General Fund                                  | (397,308)          | 0                              | (397,308)                      |
| Special Revenue Funds                         | 0                  | 343,333                        | 343,333                        |
| Debt Service Fund                             | 0                  | 101,363                        | 101,363                        |
| Capital Projects Funds                        | 0                  | 275,578                        | 275,578                        |
| <i>Total Fund Balances</i>                    | <u>(13,303)</u>    | <u>881,297</u>                 | <u>867,994</u>                 |
| <i>Total Liabilities and Fund Balances</i>    | <u>\$4,592,590</u> | <u>\$1,493,835</u>             | <u>\$6,086,425</u>             |

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

**Total Governmental Funds Balances** \$867,994

*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. 6,166,728

Some of the District's receivables 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. These receivables consist of:  
     Property taxes 253,334

Intergovernmental payables include contractually required pension contributions not  
 expected to be paid with expendable available financial resources and therefore  
 are not reported in the funds. (123,157)

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

|                                                      |                    |             |
|------------------------------------------------------|--------------------|-------------|
| Energy conservation notes                            | (645,000)          |             |
| General obligation bonds                             | (1,057,000)        |             |
| Accrued interest on notes and bonds                  | (9,738)            |             |
| Capital leases                                       | (1,046,008)        |             |
| Compensated absences                                 | <u>(1,221,892)</u> |             |
| Total liabilities that are not reported in the funds |                    | (3,979,638) |

An internal service fund is used by management to charge the costs  
 of insurance activities to individual funds. The assets and liabilities of the internal  
 service fund are included in governmental activities in the statement of net assets. 954,008

*Net Assets of Governmental Activities* \$4,139,269

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2004*

|                                                     | General           | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-----------------------------------------------------|-------------------|--------------------------------|--------------------------------|
| <b><u>Revenues:</u></b>                             |                   |                                |                                |
| Property Taxes                                      | \$3,310,468       | \$307,385                      | \$3,617,853                    |
| Income Taxes                                        | 1,280,737         | 0                              | 1,280,737                      |
| Intergovernmental                                   | 8,030,413         | 874,708                        | 8,905,121                      |
| Interest                                            | 1,289             | 12,278                         | 13,567                         |
| Tuition and Fees                                    | 1,192,417         | 0                              | 1,192,417                      |
| Extracurricular Activities                          | 0                 | 159,043                        | 159,043                        |
| Rentals                                             | 36,273            | 0                              | 36,273                         |
| Gifts and Donations                                 | 95,500            | 11,207                         | 106,707                        |
| Charges for Services                                | 0                 | 375,438                        | 375,438                        |
| Miscellaneous                                       | 14,190            | 59,928                         | 74,118                         |
| <b>Total Revenues</b>                               | <b>13,961,287</b> | <b>1,799,987</b>               | <b>15,761,274</b>              |
| <b><u>Expenditures:</u></b>                         |                   |                                |                                |
| <i>Current:</i>                                     |                   |                                |                                |
| <i>Instruction:</i>                                 |                   |                                |                                |
| Regular                                             | 6,900,134         | 180,612                        | 7,080,746                      |
| Special                                             | 1,317,088         | 308,627                        | 1,625,715                      |
| Vocational                                          | 353,175           | 0                              | 353,175                        |
| Other                                               | 23,364            | 0                              | 23,364                         |
| <i>Support Services:</i>                            |                   |                                |                                |
| Pupils                                              | 784,877           | 1,229                          | 786,106                        |
| Instructional Staff                                 | 491,604           | 81,614                         | 573,218                        |
| Board of Education                                  | 30,043            | 0                              | 30,043                         |
| Administration                                      | 1,128,937         | 20,397                         | 1,149,334                      |
| Fiscal                                              | 351,547           | 5,712                          | 357,259                        |
| Operation and Maintenance of Plant                  | 1,067,942         | 8,744                          | 1,076,686                      |
| Pupil Transportation                                | 877,367           | 6,699                          | 884,066                        |
| Central                                             | 77,819            | 23,552                         | 101,371                        |
| Operation of Non-Instructional Services             | 0                 | 563,421                        | 563,421                        |
| Extracurricular Activities                          | 336,878           | 212,587                        | 549,465                        |
| Capital Outlay                                      | 141,875           | 1,086,496                      | 1,228,371                      |
| <i>Debt Service:</i>                                |                   |                                |                                |
| Principal Retirement                                | 215,868           | 80,000                         | 295,868                        |
| Interest and Fiscal Charges                         | 44,646            | 63,963                         | 108,609                        |
| <b>Total Expenditures</b>                           | <b>14,143,164</b> | <b>2,643,653</b>               | <b>16,786,817</b>              |
| <b>Excess of Revenues Over (Under) Expenditures</b> | <b>(181,877)</b>  | <b>(843,666)</b>               | <b>(1,025,543)</b>             |
| <b><u>Other Financing Sources (Uses):</u></b>       |                   |                                |                                |
| Proceeds from the Sale of Capital Assets            | 4,440             | 0                              | 4,440                          |
| Inception of Capital Lease                          | 106,812           | 850,000                        | 956,812                        |
| Transfers In                                        | 0                 | 80,719                         | 80,719                         |
| Transfers Out                                       | (80,469)          | 0                              | (80,469)                       |
| <b>Total Other Financing Sources (Uses)</b>         | <b>30,783</b>     | <b>930,719</b>                 | <b>961,502</b>                 |
| <b>Net Change in Fund Balances</b>                  | <b>(151,094)</b>  | <b>87,053</b>                  | <b>(64,041)</b>                |
| <b>Fund Balances at Beginning of Year</b>           | <b>137,791</b>    | <b>794,244</b>                 | <b>932,035</b>                 |
| <b>Fund Balances at End of Year</b>                 | <b>(\$13,303)</b> | <b>\$881,297</b>               | <b>\$867,994</b>               |

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** (\$64,041)

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

|                                                                                                                                                                                                                                                                                               |                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 846,913                 |
| Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.                                                                                                | (180,851)               |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:                                                                                                                                 |                         |
| Property taxes                                                                                                                                                                                                                                                                                | 32,203                  |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.                                                                                                                                      | 295,868                 |
| Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities:                                                                                                             |                         |
| Inception of Capital Leases                                                                                                                                                                                                                                                                   | (956,812)               |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.                                                                                                                                        | (18)                    |
| 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:                                                                                   |                         |
| Increase in compensated absences                                                                                                                                                                                                                                                              | (82,326)                |
| Decrease in intergovernmental payables                                                                                                                                                                                                                                                        | 4,909                   |
| Total expenditures not reported in the funds                                                                                                                                                                                                                                                  | (77,417)                |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities.                                                                                                     | 382,608                 |
| <i>Change in Net Assets of Governmental Activities</i>                                                                                                                                                                                                                                        | <u><u>\$278,453</u></u> |

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
General Fund  
For the Fiscal Year Ended June 30, 2004

|                                                                                                         | ORIGINAL<br>BUDGET  | FINAL<br>BUDGET   | ACTUAL            | VARIANCE<br>OVER/(UNDER) |
|---------------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|--------------------------|
| <b><u>Revenues:</u></b>                                                                                 |                     |                   |                   |                          |
| Property Taxes                                                                                          | \$ 2,727,000        | \$ 3,059,967      | \$ 3,059,967      | \$ -                     |
| Income Tax                                                                                              | 1,305,000           | 1,255,975         | 1,255,975         | -                        |
| Intergovernmental                                                                                       | 7,544,000           | 8,031,385         | 8,031,385         | -                        |
| Interest                                                                                                | 50,000              | 31,156            | 33,251            | 2,095                    |
| Tuition and Fees                                                                                        | 968,500             | 1,204,758         | 1,205,205         | 447                      |
| Rentals                                                                                                 | 30,000              | 35,735            | 36,273            | 538                      |
| Miscellaneous                                                                                           | 1,500               | 44,268            | 47,149            | 2,881                    |
| Total Revenues                                                                                          | <u>12,626,000</u>   | <u>13,663,244</u> | <u>13,669,205</u> | <u>5,961</u>             |
| <b><u>Expenditures:</u></b>                                                                             |                     |                   |                   |                          |
| Current:                                                                                                |                     |                   |                   |                          |
| Instruction:                                                                                            |                     |                   |                   |                          |
| Regular                                                                                                 | 6,961,520           | 6,866,754         | 6,846,804         | 19,950                   |
| Special                                                                                                 | 1,233,442           | 1,216,686         | 1,214,988         | 1,698                    |
| Vocational                                                                                              | 353,090             | 348,364           | 347,094           | 1,270                    |
| Other                                                                                                   | 24,013              | 23,690            | 23,217            | 473                      |
| Support Services:                                                                                       |                     |                   |                   |                          |
| Pupils                                                                                                  | 803,267             | 792,574           | 788,472           | 4,102                    |
| Instructional Staff                                                                                     | 523,283             | 516,437           | 503,164           | 13,273                   |
| Board of Education                                                                                      | 33,892              | 33,430            | 32,620            | 810                      |
| Administration                                                                                          | 1,182,123           | 1,166,044         | 1,157,743         | 8,301                    |
| Fiscal                                                                                                  | 355,341             | 350,526           | 348,733           | 1,793                    |
| Operations of Maintenance of Plant                                                                      | 1,141,634           | 1,126,596         | 1,105,959         | 20,637                   |
| Pupil Transportation                                                                                    | 910,385             | 898,350           | 893,003           | 5,347                    |
| Central                                                                                                 | 88,581              | 87,517            | 76,346            | 11,171                   |
| Extracurricular Activities                                                                              | 354,540             | 349,820           | 343,916           | 5,904                    |
| Capital Outlay                                                                                          | 47,020              | 46,379            | 46,375            | 4                        |
| <i>Debt Service:</i>                                                                                    |                     |                   |                   |                          |
| Principal Retirement                                                                                    | 135,000             | 135,000           | 135,000           | -                        |
| Interest and Fiscal Charges                                                                             | 33,083              | 33,083            | 33,083            | -                        |
| Total Expenditures                                                                                      | <u>14,180,214</u>   | <u>13,991,250</u> | <u>13,896,517</u> | <u>94,733</u>            |
| Excess of Revenues Over<br>(Under) Expenditures                                                         | (1,554,214)         | (328,006)         | (227,312)         | 100,694                  |
| Other Financing Sources (Uses):                                                                         |                     |                   |                   |                          |
| Proceeds from the Sale of Capital Assets                                                                | 1,000               | 4,440             | 4,440             | -                        |
| Advances In                                                                                             | 675                 | 675               | 675               | -                        |
| Transfers Out                                                                                           | (80,469)            | (80,469)          | (80,469)          | -                        |
| Total Other Financing Sources (Uses)                                                                    | <u>(78,794)</u>     | <u>(75,354)</u>   | <u>(75,354)</u>   | <u>-</u>                 |
| Excess of Revenues and Other<br>Financing Sources Over (Under)<br>Expenditures and Other Financing Uses | (1,633,008)         | (403,360)         | (302,666)         | 100,694                  |
| Fund Balances at Beginning of Year                                                                      | 916,008             | 916,008           | 916,008           | -                        |
| Prior Year Encumbrances Appropriated                                                                    | 159,097             | 159,097           | 159,097           | -                        |
| Fund Balances at End of Year                                                                            | <u>\$ (557,903)</u> | <u>\$ 671,745</u> | <u>\$ 772,439</u> | <u>\$ 100,694</u>        |

See accompanying notes to the basic financial statements

**FAIRIFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2004*

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|                                             | <u>Governmental<br/>Activities<br/>Internal<br/>Service<br/>Funds</u> |
|---------------------------------------------|-----------------------------------------------------------------------|
| <b><u>Current Assets:</u></b>               |                                                                       |
| Equity in Pooled Cash and Cash Equivalents  | \$20,805                                                              |
| Cash and Cash Equivalents with Fiscal Agent | <u>1,067,205</u>                                                      |
| <i>Total Current Assets</i>                 | <u>1,088,010</u>                                                      |
| <b><u>Current Liabilities:</u></b>          |                                                                       |
| Claims Payable                              | <u>134,002</u>                                                        |
| <b><u>Net Assets:</u></b>                   |                                                                       |
| Unrestricted                                | <u><u>\$954,008</u></u>                                               |

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Revenues,  
Expenses and Change in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2004*

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|                                        | <u>Governmental<br/>Activities</u><br><u>Internal<br/>Service<br/>Funds</u> |
|----------------------------------------|-----------------------------------------------------------------------------|
| <b><u>Operating Revenues:</u></b>      |                                                                             |
| Charges for Services                   | \$1,712,384                                                                 |
| Other                                  | <u>60,857</u>                                                               |
| <i>Total Operating Revenues</i>        | <u>1,773,241</u>                                                            |
| <b><u>Operating Expenses:</u></b>      |                                                                             |
| Purchased Services                     | 123,029                                                                     |
| Claims                                 | 1,266,402                                                                   |
| Other                                  | <u>2,000</u>                                                                |
| <i>Total Operating Expenses</i>        | <u>1,391,431</u>                                                            |
| <i>Operating Income (Loss)</i>         | 381,810                                                                     |
| <b><u>Nonoperating Revenue:</u></b>    |                                                                             |
| Interest                               | <u>1,048</u>                                                                |
| <i>Income (Loss) Before Transfers</i>  | 382,858                                                                     |
| Transfers Out                          | <u>(250)</u>                                                                |
| <i>Change in Net Assets</i>            | 382,608                                                                     |
| <i>Net Assets at Beginning of Year</i> | <u>571,400</u>                                                              |
| <i>Net Assets at End of Year</i>       | <u><u>\$954,008</u></u>                                                     |

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Fiscal Year Ended June 30, 2004*

|                                                                       | Governmental<br>Activities   |
|-----------------------------------------------------------------------|------------------------------|
|                                                                       | Internal<br>Service<br>Funds |
| <hr/> <hr/>                                                           |                              |
| <b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>       |                              |
| <b><u>Cash Flows from Operating Activities:</u></b>                   |                              |
| Cash Received from Interfund Services Provided                        | \$1,712,384                  |
| Other Cash Receipts                                                   | 61,030                       |
| Cash Payments for Goods and Services                                  | (123,287)                    |
| Cash Payments for Claims                                              | (1,186,746)                  |
| Other Cash Payments                                                   | (2,000)                      |
|                                                                       | <hr/>                        |
| <i>Net Cash from Operating Activities</i>                             | 461,381                      |
|                                                                       | <hr/>                        |
| <b><u>Cash Flows from Noncapital Financing Activities:</u></b>        |                              |
| Transfer Out                                                          | (250)                        |
|                                                                       | <hr/>                        |
| <i>Net Cash Provided by (Used in) Noncapital Financing Activities</i> | (250)                        |
|                                                                       | <hr/>                        |
| <b><u>Cash Flows from Investing Activities:</u></b>                   |                              |
| Interest on Investments                                               | 1,048                        |
|                                                                       | <hr/>                        |
| <i>Net Cash from Investing Activities</i>                             | 1,048                        |
|                                                                       | <hr/>                        |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>           | 462,179                      |
|                                                                       | <hr/>                        |
| <i>Cash and Cash Equivalents Beginning of Year</i>                    | 625,831                      |
|                                                                       | <hr/>                        |
| <i>Cash and Cash Equivalents End of Year</i>                          | <u>\$1,088,010</u>           |
|                                                                       | <hr/> <hr/>                  |
| <b><u>Reconciliation of Operating Income (Loss)</u></b>               |                              |
| <b><u>to Net Cash from Operating Activities:</u></b>                  |                              |
| Operating Income (Loss)                                               | \$381,810                    |
| <b><u>Adjustments to Reconcile Operating Income (Loss)</u></b>        |                              |
| <b><u>to Net Cash from Operating Activities:</u></b>                  |                              |
| <i>(Increase) Decrease in Assets:</i>                                 |                              |
| Accounts Receivable                                                   | 173                          |
| <i>Increase (Decrease) in Liabilities:</i>                            |                              |
| Accounts Payable                                                      | (258)                        |
| Claims Payable                                                        | 79,656                       |
|                                                                       | <hr/>                        |
| Total Adjustments                                                     | 79,571                       |
|                                                                       | <hr/>                        |
| <i>Net Cash from Operating Activities</i>                             | <u>\$461,381</u>             |
|                                                                       | <hr/> <hr/>                  |

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2004*

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|                                            | <u>Agency</u>    |
|--------------------------------------------|------------------|
| <b><u>Assets:</u></b>                      |                  |
| Equity in Pooled Cash and Cash Equivalents | <u>\$197,109</u> |
| <b><u>Liabilities:</u></b>                 |                  |
| Undistributed Monies                       | <u>\$197,109</u> |

See accompanying notes to the basic financial statements

# **FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

### **Description of the School District**

Fairfield Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. It is staffed by 82 non-certificated employees, 112 certificated full-time teaching personnel and 9 administrative employees who provide services to 1,955 students and other community members. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

### **Reporting Entity**

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

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

The District is associated with five organizations, four of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations are the Metropolitan Educational Council, the Fairfield County Council for Educational Collaboration, Central Ohio Special Education Regional Resource Center, the South Central Ohio Insurance Consortium and the Shakley Unservile Inc. Workers=Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

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

The financial statements of the 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 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 District's accounting policies are described below.

# **FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

### **A. Basis of Presentation**

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

#### **Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

#### **Fund Financial Statements**

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. 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 District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

#### **Governmental Funds**

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus 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.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

The following is the District's only major governmental fund:

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

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

***Proprietary Fund***

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The internal service funds of the District account for a self-insurance program, which provides health and dental insurance benefits to employees, and the District's class play activities.

***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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

***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 District are included on the statement of net assets.

***Fund Financial Statements***

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

---

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

**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 proprietary and 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.

**Revenues - Exchange and Nonexchange 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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On 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 the fiscal year-end: property taxes available for advance, grants and interest.

**Deferred Revenue**

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

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

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**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.

**E. Cash and Cash Equivalents**

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

During the fiscal year 2004, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. 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 investments the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$1,289.

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

**F. Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**H. 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 in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks, capital improvements and budget stabilization. See Note 18 for additional information regarding set-asides.

**I. Capital Assets**

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

| Description                | Estimated Lives |
|----------------------------|-----------------|
| Land Improvements          | 15 - 30 years   |
| Buildings and Improvements | 15 - 99 years   |
| Furniture and Fixtures     | 5 - 20 years    |
| Vehicles                   | 5 - 15 years    |
| Equipment                  | 10 years        |

**J. 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 column of the statement of net assets.

**K. Compensated Absences**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

The entire compensated absence liability is reported on the government-wide financial statements.

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

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

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

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

**M. 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**N. Fund Balance Reserves**

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

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

***P. 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.

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2004, the District reported no extraordinary or special items.

***R. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

***S. Budgetary Process***

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board'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 District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

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 - PRIOR PERIOD ADJUSTMENT**

It was found that the District's June 30, 2003 tax revenue for the governmental activities omitted delinquent property taxes, which resulted in an adjustment to increase the tax revenue and decrease the deferred revenue. Therefore, the tax revenue at June 30, 2003 was understated.

|                                      | Governmental<br>Activities |
|--------------------------------------|----------------------------|
| Net Assets at June 30, 2003          | \$3,639,685                |
| Understatement of Tax Revenue        | 221,131                    |
| Adjusted Net Assets at June 30, 2003 | <u>\$3,860,816</u>         |

**NOTE 4 - ACCOUNTABILITY**

The following funds had deficit fund balances as of June 30, 2004:

|                                  |          |
|----------------------------------|----------|
| General Fund                     | \$13,303 |
| <i>Other Governmental Funds:</i> |          |
| Auxiliary Services               | \$4,859  |
| Summer Intervention              | 9,524    |
| IDEA-B Grant                     | 5,992    |
| Title V                          | 221      |
| Title VI                         | 144      |
| Title II-A                       | 1,576    |

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the 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 and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING** - (Continued)

The major differences between the budget basis and modified accrual GAAP basis are that:

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

|                            |             |
|----------------------------|-------------|
| Net Change in Fund Balance |             |
| Budgetary Basis            | (\$302,666) |
| <i>Adjustments:</i>        |             |
| Revenue Accruals           | 292,082     |
| Expenditure Accruals       | (306,457)   |
| Encumbrances               | 59,810      |
| Other Sources (Uses)       | 106,137     |
|                            | <hr/>       |
| GAAP Basis                 | (\$151,094) |
|                            | <hr/> <hr/> |

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money 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 fair 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 fair value 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) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's 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 interim monies available for investment at any time; and
8. Under limited circumstances, corporate 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

**Deposits:** At fiscal year-end, the carrying amount of the District's deposits was \$1,097,053, and the bank balance was \$1,100,805. Of the bank balance, \$33,600 was covered by federal depository insurance and \$1,067,205 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the District's name and all State statutory requirements for the investments of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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

|                          | Category<br>3 | Carrying<br>Value | Fair<br>Value |
|--------------------------|---------------|-------------------|---------------|
| Money Market             | \$1,305,338   | \$1,305,338       | \$1,305,338   |
| Treasury Bonds and Notes | 878,709       | 878,709           | 878,709       |
| STAROhio                 | 0             | 3,769             | 3,769         |
| Totals                   | \$2,184,047   | \$2,187,816       | \$2,187,816   |

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

|                          | Cash and Cash<br>Equivalents/Deposits | Investments |
|--------------------------|---------------------------------------|-------------|
| GASB Statement No. 9     | \$3,284,869                           | \$0         |
| <i>Investments:</i>      |                                       |             |
| Money Market             | (1,305,338)                           | 1,305,338   |
| Treasury Bonds and Notes | (878,709)                             | 878,709     |
| STAROhio                 | (3,769)                               | 3,769       |
| GASB Statement No. 3     | \$1,097,053                           | \$2,187,816 |

**NOTE 7 - SCHOOL INCOME TAXES**

The District currently benefits from a .75% income tax, which is assessed on all residents of the District. The District apportions all the proceeds to the general fund. During fiscal year 2004, the District received \$1,280,737 from the school income tax.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 8 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

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

Accrued property taxes receivable represents the June 2004 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2004 was \$419,347 and is recognized as revenue. Of this total amount, \$383,448 was available to the General Fund, \$11,076 was available to the Bond Retirement Fund, and \$24,823 was available to the Permanent Improvement Fund.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 8 - PROPERTY TAXES** - (Continued)

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

|                                                   | 2003 Second-<br>Half Collections |                | 2004 First-<br>Half Collections |                |
|---------------------------------------------------|----------------------------------|----------------|---------------------------------|----------------|
|                                                   | Amount                           | Percent        | Amount                          | Percent        |
| Agricultural/Residential<br>and Other Real Estate | \$136,536,250                    | 91.29%         | \$140,339,330                   | 90.89%         |
| Public Utility Personal                           | 9,954,960                        | 6.66%          | 10,331,200                      | 6.69%          |
| Tangible Personal Property                        | 3,066,015                        | 2.05%          | 3,742,056                       | 2.42%          |
| Total Assessed Value                              | \$149,557,225                    | <u>100.00%</u> | \$154,412,586                   | <u>100.00%</u> |
| Tax rate per \$1,000 of<br>assessed valuation     | \$43.00                          |                | \$45.00                         |                |

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2004 consisted of property taxes, accounts (student fees), income, interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

|                                    |                 |
|------------------------------------|-----------------|
| Governmental Activities:           |                 |
| <i>Other Governmental Funds:</i>   |                 |
| Title I                            | \$16,514        |
| Title V                            | 173             |
| Drug Free Grant                    | 788             |
| Title II-A                         | 2,300           |
| Total Intergovernmental Receivable | <u>\$19,775</u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 10 - CAPITAL ASSETS**

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

| Asset Category                        | Balance at July<br>1, 2003 | Transfers/<br>Additions | Transfers/<br>Deletions | Balance at<br>June 30, 2004 |
|---------------------------------------|----------------------------|-------------------------|-------------------------|-----------------------------|
| <i>Nondepreciable Capital Assets:</i> |                            |                         |                         |                             |
| Land                                  | \$198,228                  | \$95,254                | \$0                     | \$293,482                   |
| Construction in Progress              | 0                          | 762,193                 | 0                       | 762,193                     |
| Total Nondepreciable Capital Assets   | 198,228                    | 857,447                 | 0                       | 1,055,675                   |
| <i>Depreciable Capital Assets:</i>    |                            |                         |                         |                             |
| Buildings and Improvements            | 5,012,457                  | 170,335                 | 0                       | 5,182,792                   |
| Furniture, Fixtures and Equipment     | 2,495,817                  | 120,331                 | (193,940)               | 2,422,208                   |
| Vehicles                              | 1,157,439                  | 0                       | 0                       | 1,157,439                   |
| Library Books and Textbooks           | 733,494                    | 59,629                  | (67,031)                | 726,092                     |
| Total Depreciable Capital Assets      | 9,399,207                  | 350,295                 | (260,971)               | 9,488,531                   |
| Total Capital Assets                  | 9,597,435                  | 1,207,742               | (260,971)               | 10,544,206                  |
| <i>Accumulated Depreciation:</i>      |                            |                         |                         |                             |
| Buildings and Improvements            | (2,206,284)                | (46,204)                | 0                       | (2,252,488)                 |
| Furniture, Fixtures and Equipment     | (1,150,051)                | (133,885)               | 75,280                  | (1,208,656)                 |
| Vehicles                              | (649,985)                  | (95,289)                | 0                       | (745,274)                   |
| Library Books and Textbooks           | (90,449)                   | (85,451)                | 4,840                   | (171,060)                   |
| Total Accumulated Depreciation        | (4,096,769)                | (360,829)               | 80,120                  | (4,377,478)                 |
| Total Net Capital Assets              | <u>\$5,500,666</u>         | <u>\$846,913</u>        | <u>(\$180,851)</u>      | <u>\$6,166,728</u>          |

Of the capital assets, \$1,308,209 are assets that are under capital lease. These assets under capital lease have an accumulated depreciation of \$52,919.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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**NOTE 10 - CAPITAL ASSETS** - (Continued)

Depreciation expense was charged to governmental functions as follow:

|                                                 |                         |
|-------------------------------------------------|-------------------------|
| <i>Instruction:</i>                             |                         |
| Regular                                         | \$104,395               |
| Special                                         | 631                     |
| Vocational                                      | 2,321                   |
| <i>Support Services:</i>                        |                         |
| Pupils                                          | 1,741                   |
| Instructional Staff                             | 83,454                  |
| Administration                                  | 30,173                  |
| Fiscal                                          | 2,193                   |
| Operation and Maintenance                       | 21,634                  |
| Pupil Transportation                            | 94,933                  |
| <i>Operation of Non-Instructional Services:</i> |                         |
| Food Service                                    | 2,738                   |
| Other                                           | 1,107                   |
| Extracurricular Activities                      | 15,509                  |
| Total Depreciation Expense                      | <u><u>\$360,829</u></u> |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with Ohio School Plan for professional and general liability insurance, and Erie Insurance for fleet insurance, and Indiana Insurance for property insurance. Coverages provided are as follows:

|                                                               |              |
|---------------------------------------------------------------|--------------|
| Building and Contents - replacement cost (\$1,000 deductible) | \$36,633,534 |
| Musical Instruments (\$500 deductible)                        | 200,000      |
| Automobile Liability (\$500 deductible)                       |              |
| Per Person                                                    | 1,000,000    |
| Per Accident                                                  | 1,000,000    |
| Uninsured Motorists                                           |              |
| Per Person                                                    | 1,000,000    |
| Per Accident                                                  | 1,000,000    |
| <i>General Liability:</i>                                     |              |
| Per Occurrence (\$1,000 deductible)                           | 1,000,000    |
| Aggregate Limit                                               | 3,000,000    |
| Public Official Bonds                                         |              |
| Treasurer                                                     | 100,000      |
| Superintendent/Board President (each)                         | 20,000       |

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

For fiscal year 2004, the District participated in the Shakley Unservile Inc. Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 20). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to a third party administrator, South Central Ohio Insurance Consortium, out of the District's Self-Insurance Internal Service Fund. EV Benefits services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 11 - RISK MANAGEMENT** - (Continued)

The claims liability of \$134,002 reported at June 30, 2004 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years is as follows:

| Fiscal Year | Balance at<br>Beginning of Year | Current Year Claims | Claims Payments | Balance at<br>End of Year |
|-------------|---------------------------------|---------------------|-----------------|---------------------------|
| 2003        | \$47,868                        | \$856,067           | \$849,589       | \$54,346                  |
| 2004        | 54,346                          | 1,266,402           | 1,186,746       | 134,002                   |

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The 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 District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$283,752, \$285,384, \$245,832 respectively; 60.00 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$141,876 representing the unpaid contribution for fiscal year 2004, is recorded as a liability on the Statement of Net Assets.

**State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS** - (Continued)

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. 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.

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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$903,912, \$838,632, and \$862,440, respectively; 82.13 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$161,532 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

**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, 2004, four members of the Board of Education have elected Social Security.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 13 - POSTEMPLOYMENT BENEFITS** - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$66,119 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information year available). For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship 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 fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000. For the District, the amount to fund health care benefits, including the surcharge, equaled \$201,775 during the 2004 fiscal year.

**NOTE 14 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year 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 230 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 56 days classified employees and 56 days for certified employees. In addition, certified employees who retire at thirty years of service and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 56 days.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 15 - LONG-TERM LIABILITIES**

The changes in the District's long-term liabilities during fiscal year 2004 were as follows:

|                               | Issue<br>Date | Interest<br>Rate | Principal<br>Outstanding at<br>July 1, 2003 | Additions          | Deletions        | Principal<br>Outstanding at<br>June 30, 2004 | Amount<br>Due in One<br>Year |
|-------------------------------|---------------|------------------|---------------------------------------------|--------------------|------------------|----------------------------------------------|------------------------------|
| Governmental Activities:      |               |                  |                                             |                    |                  |                                              |                              |
| Energy Conservation Note      |               | 4.85%            | \$780,000                                   | \$0                | \$135,000        | \$645,000                                    | \$145,000                    |
| Bonds - Buildings             |               | 5.90%            | 925,000                                     | 0                  | 35,000           | 890,000                                      | 35,000                       |
| Bonds - Buses                 |               | 5.38%            | 212,000                                     | 0                  | 45,000           | 167,000                                      | 45,000                       |
| Capital Leases Payable        |               |                  | 170,064                                     | 956,812            | 80,868           | 1,046,008                                    | 39,107                       |
| Compensated Absences          |               |                  | 1,225,244                                   | 651,356            | 584,932          | 1,291,668                                    | 130,920                      |
| Total Governmental Activities |               |                  |                                             |                    |                  |                                              |                              |
| Long-Term Liabilities         |               |                  | <u>\$3,312,308</u>                          | <u>\$1,608,168</u> | <u>\$880,800</u> | <u>\$4,039,676</u>                           | <u>\$395,027</u>             |

*Energy Conservation Note* - In December, 1997, Fairfield Union Local School District issued general obligation notes for H. B. 264 energy improvements. The notes were issued for \$1,047,892 at 4.4% interest and mature December 2005. The balance of this debt was refinanced in November, 1998 extending the payment schedule an additional five years. In June, 1999 the District issued additional general obligation notes for H. B. 264 energy improvements. The notes were issued for \$425,000 at 4.85% interest and mature December, 2013.

*General Obligation Bonds - Buildings* -The \$890,000 of outstanding general obligation bond relate to two projects. In 1993, bonds were issued for the purpose of an addition, remodeling and equipping the middle school building and improving the site thereof and an activity center at the high school. The bonds were issued for \$1,150,000 at 5.9% interest and mature December, 2018. These bonds are in full compliance with the general laws of the State of Ohio, particularly Section 113.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

*General Obligation Bonds - Buses* -In February of 1996, the District issued \$260,000 in general obligation bus bonds for the purchase of five school buses. These bonds have an average interest of 5.83% and mature in 2007. In February of 1998, the District issued \$164,000 in general obligation bus bonds for the purchase of school buses. The bonds have an average interest of 5% and mature in 2008.

The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was \$12,195,133 with an unvoted debt margin of \$154,413 at June 30, 2004.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 15 - LONG-TERM LIABILITIES** - (Continued)

The annual requirements to retire the energy conservation note and general obligation bonds outstanding at June 30, 2004 are as follows:

| Fiscal Year<br>Ending June 30,        | Energy<br>Conservation<br>Note | Building<br>Bonds | Bus<br>Bonds | Total     |
|---------------------------------------|--------------------------------|-------------------|--------------|-----------|
| 2005                                  | \$171,866                      | \$86,093          | \$53,755     | \$225,621 |
| 2006                                  | 175,187                        | 84,290            | 53,389       | 228,576   |
| 2007                                  | 41,126                         | 82,347            | 58,815       | 99,941    |
| 2008                                  | 44,793                         | 85,135            | 21,000       | 65,793    |
| 2009                                  | 48,217                         | 82,775            | 0            | 48,217    |
| 2010-2014                             | 288,829                        | 466,675           | 0            | 288,829   |
| 2015-2019                             | 0                              | 466,212           | 0            | 0         |
| Total Debt Payments                   | 770,018                        | 1,353,527         | 186,959      | 956,977   |
| Less: Amount<br>Representing Interest | 125,018                        | 463,527           | 19,959       | 144,977   |
| Total Principal                       | \$645,000                      | \$890,000         | \$167,000    | \$812,000 |

**NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE**

During the year, the District entered into four new capital leases for the acquisition of land, bleachers and two copiers. The lease agreements are accounted for as capital outlay expenditures in the general fund with an offsetting amount reported as an other financing source, inception of capital lease. The District also had other capital leases outstanding from prior years. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, Accounting for Leases, which defines a capital lease generally as on which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability has been recorded as a long-term obligation. Principal payments in fiscal year 2004 totaled \$80,868.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE** - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2004.

| Fiscal Year<br>Ending June 30,        | Lease<br>Payments  |
|---------------------------------------|--------------------|
| 2005                                  | \$91,171           |
| 2006                                  | 79,125             |
| 2007                                  | 136,365            |
| 2008                                  | 113,133            |
| 2009                                  | 62,990             |
| 2010-2014                             | 303,950            |
| 2015-2019                             | 303,950            |
| 2020 - 2024                           | 303,950            |
| 2025 - 2026                           | 121,581            |
| Total Debt Payments                   | 1,516,215          |
| Less: Amount<br>Representing Interest | 470,207            |
| Total Principal                       | <u>\$1,046,008</u> |

**NOTE 17 - INTERFUND ACTIVITY**

As of June 30, 2004, transfers were as follows:

| Fund                             | Transfers<br>In | Transfers<br>Out |
|----------------------------------|-----------------|------------------|
| General                          | \$0             | \$80,469         |
| <i>Other Governmental Funds:</i> |                 |                  |
| Summer Intervention              | 24,366          | 0                |
| Gift Fund                        | 250             |                  |
| Bond Retirement                  | 56,103          | 0                |
| Total Other Governmental         | 80,719          | 0                |
| <i>Proprietary Fund:</i>         |                 |                  |
| Class Play                       | 0               | 250              |
| Totals                           | <u>\$80,719</u> | <u>\$80,719</u>  |

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 17 - INTERFUND ACTIVITY** - (Continued)

Transfers are generally used to either (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year ended 2004, the District made a transfer of \$24,366 from the General Fund to the Summer Intervention Special Revenue Fund to subsidize summer school operations.

During fiscal year ended 2004, the District made a transfer of \$56,103 from the General Fund to the Bond Retirement Debt Service Fund to make debt payments.

**NOTE 18 - STATUTORY SET-ASIDES**

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2004:

|                                       | Textbooks | Capital<br>Improvements | Budget<br>Stabilization | Totals      |
|---------------------------------------|-----------|-------------------------|-------------------------|-------------|
| Set-Aside Balance as of July 1, 2003  | \$0       | \$0                     | \$366,446               | \$366,446   |
| Current Year Set-Aside Requirement    | 260,078   | 260,078                 | 0                       | 520,156     |
| Qualifying Disbursements              | (385,765) | (433,875)               | (366,446)               | (1,186,086) |
| Total                                 | (125,687) | (173,797)               | 0                       | (299,484)   |
| Set-Aside Balance as of June 30, 2004 | \$0       | \$0                     | \$0                     |             |
| Total Restricted Assets               |           |                         |                         | \$0         |

Although the District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts, only the excess in the textbook reserve account can be carried forward to offset future years=textbook set-aside requirements. Each reserve must be represented by restricted cash at year-end and carried forward to be used for the same purposes in future years.

Senate Bill 345 eliminated the Budget Stabilization Reserve, except for amounts related to unspent Bureau of Workers compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve. The Board of Education designated, by motion, that the reserve be used to address unforeseen or emergency situations during the fiscal year ended 2004.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 19 - JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Education Council (MEC)**

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

**Fairfield County Council for Educational Collaboration**

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

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

**South Central Ohio Insurance Consortium (SCOIC)**

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

**Central Ohio Special Education Regional Resource Center (COSSERC)**

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 20 - INSURANCE PURCHASING POOL**

**Shakley Unservile Inc. Worker's Compensation Group Rating Plan**

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

**NOTE 21 - CONTINGENCIES**

**Grants**

The 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 District at June 30, 2004.

**NOTE 22 - SCHOOL FUNDING**

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school funding scheme that is thorough and efficient.

The 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 23 - CONTRACTUAL COMMITMENTS**

As of June 30, 2004, the District had contractual commitments for the project to install new bleachers.

|                                  |                  |
|----------------------------------|------------------|
| Purchase Commitment              | \$670,969        |
| Amounts Paid as of June 30, 2004 | 458,742          |
| Amount Remaining on Contract     | <u>\$212,227</u> |

**NOTE 24 - SUBSEQUENT EVENTS**

On November 2, 2004, the voters approved an \$8,000,000 bond issue. The district issued these bonds in December 2004. This issue represents the first phase of a two phased Facilities Master Plan for the district.



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

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

We have audited the accompanying financial statements of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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.

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
December 30, 2004



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

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

**Compliance**

We have audited the compliance of The Fairfield Union Local School District, Fairfield County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal 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 its major federal programs for the year ended June 30, 2004.

**Internal Control over Compliance**

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

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

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

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

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
December 30, 2004

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

| <u>Federal grantor/Pass through grantor/Program title</u>                                 | <u>Federal<br/>CFDA<br/>Number</u> | <u>Agency or<br/>pass through<br/>number</u> | <u>Receipts</u>   | <u>Non-Cash<br/>Receipts</u> | <u>Expenditures</u> | <u>Non-Cash<br/>Expenditures</u> |
|-------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------|-------------------|------------------------------|---------------------|----------------------------------|
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>                                              |                                    |                                              |                   |                              |                     |                                  |
| <i>Pass-through State Department of Education:</i>                                        |                                    |                                              |                   |                              |                     |                                  |
| Nutrition Cluster:                                                                        |                                    |                                              |                   |                              |                     |                                  |
| Food Donation                                                                             | 10.550                             |                                              | \$ -              | \$ 50,902                    | \$ -                | \$ 51,623                        |
| National School Lunch Program                                                             | 10.555                             | 046870 LL-P4                                 | 116,798           | -                            | 116,798             | -                                |
| Total U.S. Department of Agriculture - Nutrition Cluster                                  |                                    |                                              | <u>116,798</u>    | <u>50,902</u>                | <u>116,798</u>      | <u>51,623</u>                    |
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                                                |                                    |                                              |                   |                              |                     |                                  |
| <i>Pass-through Ohio Department of Education:</i>                                         |                                    |                                              |                   |                              |                     |                                  |
| Title I, Schoolwide and Targeted Assistance                                               | 84.010                             | 046870 C1-SD                                 | 228,618           | -                            | 209,708             | -                                |
| Special Education-Part B-IDEA                                                             | 84.027                             | 046870 6B-SF                                 | 194,762           | -                            | 192,827             | -                                |
| Safe and Drug Free Schools, Title IV-A                                                    | 84.186                             | 046870 DR-S1                                 | 8,786             | -                            | 8,990               | -                                |
| Innovative Programs, Title V                                                              | 84.298                             | 046870 C2-S1                                 | 11,563            | -                            | 11,051              | -                                |
| Technology, Title II-D                                                                    | 84.318                             | 046870 TJ-S1                                 | 5,430             | -                            | 5,430               | -                                |
| Improving Teacher Quality, Title II-A                                                     | 84.367                             | 046870 TR-S1                                 | 80,866            | -                            | 77,376              | -                                |
| Total U.S. Department of Education                                                        |                                    |                                              | <u>530,025</u>    | <u>-</u>                     | <u>505,382</u>      | <u>-</u>                         |
| <b><u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>                                  |                                    |                                              |                   |                              |                     |                                  |
| <i>Pass-through Ohio Department of Mental Retardation and Developmental Disabilities:</i> |                                    |                                              |                   |                              |                     |                                  |
| Medicaid: Title XIX                                                                       | 93.778                             |                                              | 5,507             |                              | 5,507               |                                  |
| Total Department of Job and Family Services                                               |                                    |                                              | <u>5,507</u>      | <u>-</u>                     | <u>5,507</u>        | <u>-</u>                         |
| <b>Totals</b>                                                                             |                                    |                                              | <u>\$ 652,330</u> | <u>\$ 50,902</u>             | <u>\$ 627,687</u>   | <u>\$ 51,623</u>                 |

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

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

**(1) General**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Fairfield Union Local School District (District) as the primary government. The District's reporting entity is defined in Note 1 to the District's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies is included on the Schedule.

**(2) Basis of Accounting**

The accompanying Schedule is presented on a cash basis of accounting in which revenues are recognized when received and expenses are recognized when paid.

**(3) Noncash Programs**

The District values its noncash programs (National School Lunch Program) on the basis of the value of the goods received during the fiscal year.

**(4) Revenue**

The revenue balances are reported net of refunds to the governmental agency.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

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

**JUNE 30, 2004**

|                                        |
|----------------------------------------|
| <b>1. SUMMARY OF AUDITOR'S RESULTS</b> |
|----------------------------------------|

|              |                                                                                                                |                                                              |
|--------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| (d)(1)(i)    | Type of Financial Statement Opinion                                                                            | Unqualified                                                  |
| (d)(1)(ii)   | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?         | No                                                           |
| (d)(1)(ii)   | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No                                                           |
| (d)(1)(iii)  | Was there any reported material noncompliance at the financial statement level (GAGAS)?                        | No                                                           |
| (d)(1)(iv)   | Were there any material internal control weakness conditions reported for major federal programs?              | No                                                           |
| (d)(1)(iv)   | Were there any other reportable internal control weakness conditions reported for major federal programs?      | No                                                           |
| (d)(1)(v)    | Type of Major Programs' Compliance Opinion                                                                     | Unqualified                                                  |
| (d)(1)(vi)   | Are there any reportable findings under § .510(a) of Circular A-133?                                           | No                                                           |
| (d)(1)(vii)  | Major Programs (list):                                                                                         | Title I, Schoolwide and Targeted Assistance<br>CFDA # 84.010 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs                                                                            | Type A: > \$300,000<br>Type B: All others                    |
| (d)(1)(ix)   | Low Risk Auditee?                                                                                              | Yes                                                          |

|                                                                                                             |
|-------------------------------------------------------------------------------------------------------------|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|-------------------------------------------------------------------------------------------------------------|

None.

|                                                            |
|------------------------------------------------------------|
| <b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b> |
|------------------------------------------------------------|

None.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 15, 2005**