



**Auditor of State
Betty Montgomery**

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fairland Local School District
Lawrence County
228 Private Drive 10010
Proctorville, Ohio 45669

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Fairland Local School District, Lawrence County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

May 26, 2005

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

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

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$14,119 Current and other assets decreased by \$1,277,633 and capital assets increased by \$292,830. This is largely due to the completion of a \$37 million Ohio Schools Facility Commission building project which involved cash expenditures to finalize outstanding contracts.
- General revenues accounted for \$10,831,059 or 78% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,036,631 or 22% of total revenues of \$13,867,690. The School District had \$13,881,809 in expenses related to governmental activities.
- The School District has three major funds: the General Fund, the Bond Retirement Debt Service Fund and the Ohio School Facilities Commission (OSFC) Capital Project Fund. The General Fund had \$11,259,064 in revenues and \$10,452,298 in expenditures. The General Fund's balance increased \$708,038. The Bond Retirement Debt Service Fund had \$375,010 in revenues and \$378,931 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$74,707 due to a \$78,628 transfer in from the General Fund. The Ohio School Facilities Commission (OSFC) Capital Project Fund had \$494,885 in revenues and \$1,398,711 in expenditures. The Ohio School Facilities Commission (OSFC) Capital Project Fund's balance decreased \$903,826.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Fairland 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 and conditions.

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Bond Retirement Debt Service Fund, and the Ohio School Facilities Commission (OSFC) Capital Project Fund.

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

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

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003 (Restated)
Assets		
Current and Other Assets	\$9,133,672	\$10,411,305
Capital Assets	39,378,623	39,085,793
Total Assets	48,512,295	49,497,098
Liabilities		
Long-term Liabilities	4,230,185	4,407,478
Other Liabilities	4,397,643	5,191,034
Total Liabilities	8,627,828	9,598,512
Net Assets		
Invested in Capital Assets, Net of Debt	35,783,623	35,300,793
Restricted	1,544,283	2,809,501
Unrestricted	2,556,561	1,788,292
Total Net Assets	\$39,884,467	\$39,898,586

Total assets decreased \$984,803 due to a decrease in intergovernmental receivables. Total liabilities decreased \$970,684 due largely to a decrease in contracts and retainage payable.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004 compared to 2003. Program revenue Charges for Services increased by \$514,356 due largely to revenues from open enrollment being reported as program revenue in fiscal year 2004 and as regular revenue in fiscal year 2003. Program revenue Capital Grants and Contributions decreased by \$1,498,400 due to the completion of the Ohio School Facilities Commission \$37 million building project.

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

Table 2
Changes in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program Revenues		
Charges for Services	\$959,435	\$445,079
Operating Grants, Contributions and Interest	2,019,677	1,838,145
Capital Grants and Contributions	57,519	1,555,919
Total Program Revenues	<u>3,036,631</u>	<u>3,839,143</u>
General Revenues		
Property Taxes	2,694,182	2,620,437
Grants and Entitlements	8,042,221	7,821,900
Gifts and Donations	16,685	0
Investment Earnings	19,643	41,051
Miscellaneous	58,328	7,527
Total General Revenues	<u>10,831,059</u>	<u>10,490,915</u>
Total Revenues	<u>13,867,690</u>	<u>14,330,058</u>
Program Expenses		
Instruction		
Regular	6,822,893	3,533,970
Special	1,490,412	1,388,754
Vocational	49,004	39,453
Other	4,403	0
Support Services:		
Pupils	432,294	455,885
Instructional Staff	744,641	473,509
Board of Education	161,757	415,862
Administration	959,342	778,310
Fiscal	355,887	369,855
Business	41,803	36,327
Operation and Maintenance of Plant	1,392,978	1,351,555
Pupil Transportation	570,931	436,368
Central	17,447	16,275
Operation of Non-Instructional Services	1,394	0
Operation of Non-Instructional Services:		
Food Service Operations	449,297	427,997
Extracurricular Activities	263,752	234,987
Interest and Fiscal Charges	123,574	194,793
Total Expenses	<u>13,881,809</u>	<u>10,153,900</u>
Increase in Net Assets	<u>(\$14,119)</u>	<u>\$4,176,158</u>

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

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Program Expenses				
Instruction:				
Regular	6,822,893	5,448,765	3,533,970	2,682,473
Special	1,490,412	763,090	1,388,754	574,857
Vocational	49,004	49,004	39,453	39,453
Other	4,403	4,403	0	0
Support Services:				
Pupils	432,294	373,583	455,885	376,765
Instructional Staff	744,641	452,027	473,509	458,113
Board of Education	161,757	161,757	415,862	415,862
Administration	959,342	948,748	778,310	778,310
Fiscal	355,887	355,887	369,855	369,855
Business	41,803	1,815	36,327	(1,145)
Operation and Maintenance of Plant	1,392,978	1,392,978	1,351,555	(149,200)
Pupil Transportation	570,931	520,798	436,368	366,664
Central	17,447	17,447	16,275	16,275
Operation of Non-Instructional Services	1,394	1,394	0	0
Operation of Non-Instructional Services:				
Food Service Operations	449,297	47,498	427,997	27,823
Extracurricular Activities	263,752	182,410	234,987	163,859
Interest and Fiscal Charges	123,574	123,574	194,793	194,793
Total	\$13,881,809	\$10,845,178	\$10,153,900	\$6,314,757

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 75% of instruction activities are supported through taxes and other general revenues.

The School District Funds

The School District's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,396,433 and expenditures of \$14,429,677. Expenditures exceeded revenues due to the payment of contracts related to the \$37 million Ohio School Facilities Commission building project that included the construction of a new high school and additions and renovations to the School District's three existing instructional buildings.

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

General Fund Budgeting Highlights

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

During the course of fiscal year 2004 the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$572,614 above original estimates of \$10,722,384 and budget basis expenditures were \$198,940 under original estimates of \$10,627,376. The expenditure variance is due to lower than anticipated expenditures in instructional services, pupil transportation, and general fund capital outlay.

The School District's ending unobligated General Fund balance was \$4,322,265.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$39,378,623 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2004	2003 (Restated)
Land and Land Improvements	\$198,591	\$198,591
Buildings and Improvements	36,606,698	36,574,100
Furniture and Equipment	1,964,778	2,095,764
Vehicles	258,928	217,338
Construction in Progress	349,628	0
Totals	\$39,378,623	\$39,085,793

See Note 9 for more information on capital assets.

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

Debt

At June 30, 2004, the School District had the following debt outstanding:

Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
General Obligation Bonds	\$3,450,000	\$3,570,000
Energy Conservation Bonds	145,000	215,000
	<u>\$3,595,000</u>	<u>\$3,785,000</u>

See Note 14 for information on Debt.

Economic Factors

The Fairland Local School District depends on the State School Foundation Program and must maintain its prudent spending habits.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tresa Baker, Fairland Local School District Treasurer, Route 4, Box 201, Proctorville, Ohio 45669.

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Fairland Local School District, Ohio
Statement of Net Assets
June 30, 2004

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 6,053,786
Cash and Cash Equivalents with Fiscal Agents	195,360
Materials and Supplies Inventory	38,652
Intergovernmental Receivable	157,406
Prepaid Items	121,636
Property and Other Local Taxes Receivable	2,566,832
Noncurrent Assets:	
Non-Depreciable Capital Assets	548,219
Depreciable Capital Assets, net	<u>38,830,404</u>
<i>Total Assets</i>	48,512,295
LIABILITIES:	
Current Liabilities:	
Accounts Payable	173,430
Accrued Wages and Benefits	1,247,902
Contracts Payable	127,540
Intergovernmental Payable	346,428
Accrued Interest Payable	15,197
Accrued Vacation Leave Payable	60,980
Matured Compensated Absences Payable	17,426
Retainage Payable	195,360
Deferred Revenue	2,213,380
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	229,308
Due in More Than One Year	<u>4,000,877</u>
<i>Total Liabilities</i>	8,627,828
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	35,783,623
Restricted for Debt Service	892,060
Restricted for Capital Outlay	189,073
Restricted for Other Purposes	389,986
Restricted for Budget Stabilization	43,460
Restricted for Bus Purchase	29,704
Unrestricted	<u>2,556,561</u>
<i>Total Net Assets</i>	<u><u>\$ 39,884,467</u></u>

See accompanying notes to the basic financial statements

Fairland Local School District, Ohio
 Statement of Activities
 For the Fiscal Year Ended June 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net(Expense) Revenue and and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Instruction:					
Regular	\$ 6,822,893	\$ 616,205	\$ 718,323	\$ 39,600	\$ (5,448,765)
Special	1,490,412	23,197	704,125		(763,090)
Vocational	49,004				(49,004)
Other	4,403				(4,403)
Support Services:					
Pupils	432,294		58,711		(373,583)
Instructional Staff	744,641		292,614		(452,027)
Board of Education	161,757				(161,757)
Administration	959,342		10,594		(948,748)
Fiscal	355,887				(355,887)
Business	41,803	39,988			(1,815)
Operation and Maintenance of Plant	1,392,978				(1,392,978)
Pupil Transportation	570,931		32,214	17,919	(520,798)
Central	17,447				(17,447)
Operation of Non-Instructional Services	1,394				(1,394)
Operation of Non-Instructional Services:					
Food Service Operations	449,297	198,703	203,096		(47,498)
Extracurricular Activities	263,752	81,342			(182,410)
Interest and Fiscal Charges	123,574				(123,574)
Totals	\$ 13,881,809	\$ 959,435	\$ 2,019,677	\$ 57,519	(10,845,178)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					2,330,526
Property Taxes, Levied for Debt Service					310,213
Property Taxes, Levied for					53,443
Grants and Entitlements not Restricted to Specific Programs					8,042,221
Gifts and Donations					16,685
Investment Earnings					19,643
Miscellaneous					58,328
Transfers					
Total General Revenues and Transfers					10,831,059
Change in Net Assets					(14,119)
Net Assets Beginning of Year-Restated (See Note 3)					39,898,586
Net Assets End of Year					\$ 39,884,467

See accompanying notes to the basic financial statements

Fairland Local School District, Ohio
 Balance Sheet
 Governmental Funds
 June 30, 2004

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Ohio School Facilities Commission Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 4,292,128	\$ 870,420	\$ 115,911	\$ 702,162	\$ 5,980,621
Cash and Cash Equivalents with Fiscal Agents			195,360		195,360
Materials and Supplies Inventory	9,739			28,910	38,649
Interfund Receivable	3,721				3,721
Intergovernmental Receivable			12,482	144,924	157,406
Prepaid Items	105,277			16,359	121,636
Property and Other Local Taxes Receivable	2,249,879	266,281		50,672	2,566,832
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	73,165				73,165
Total Assets	<u>\$ 6,733,909</u>	<u>\$ 1,136,701</u>	<u>\$ 323,753</u>	<u>\$ 943,027</u>	<u>\$ 9,137,390</u>
LIABILITIES:					
Accounts Payable	145,567		16,191	11,672	173,430
Accrued Wages and Benefits	1,034,787			213,115	1,247,902
Contracts Payable			127,540		127,540
Interfund Payable				3,721	3,721
Intergovernmental Payable	205,770			51,950	257,720
Matured Compensated Absences Payable	9,144			8,282	17,426
Retainage Payable			195,360		195,360
Deferred Revenue	2,215,064	262,139	12,482	98,807	2,588,492
Total Liabilities	<u>3,610,332</u>	<u>262,139</u>	<u>351,573</u>	<u>387,547</u>	<u>4,611,591</u>
Equity:					
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	15,707		437,582	3,399	456,688
Reserved for Property Taxes	34,815	4,142		784	39,741
Reserved for Budget Stabilization	43,460				43,460
Unreserved, Designated:					
Designated	362,516			28,924	391,440
Unreserved, Undesignated, Reported in:					
General Fund	2,667,079				2,667,079
Special Revenue Funds				317,962	317,962
Debt Service Funds		870,420			870,420
Capital Projects Funds			(465,402)	204,411	(260,991)
Total Fund Balances	<u>3,123,577</u>	<u>874,562</u>	<u>(27,820)</u>	<u>555,480</u>	<u>4,525,799</u>
Total Liabilities and Fund Balances	<u>\$ 6,733,909</u>	<u>\$ 1,136,701</u>	<u>\$ 323,753</u>	<u>\$ 943,027</u>	<u>\$ 9,137,390</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		\$4,525,799
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		39,378,623
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	313,714	
Grants	61,401	375,115
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but are not recognized on the balance sheet until due.		(60,980)
Interest Payable is accrued for outstanding long-term liabilities, while interest is not reported until due on the balance sheet.		(15,197)
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(88,708)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(3,595,000)	
Sick Leave Benefit Payable	(635,185)	(4,230,185)
Net Assets of Governmental Activities		\$39,884,467

See accompanying notes to the basic financial statements

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

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Ohio School Facilities Commission Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 2,339,670	\$ 327,482	\$	\$ 53,696	\$ 2,720,848
Intergovernmental	8,330,335	47,528	491,225	1,752,406	10,621,494
Interest	17,583		2,060		19,643
Tuition and Fees	519,413			36,266	555,679
Extracurricular Activities				202,518	202,518
Gifts and Donations				16,685	16,685
Customer Sales and Services				198,703	198,703
Miscellaneous	52,063		1,600	7,200	60,863
<i>Total Revenues</i>	<u>11,259,064</u>	<u>375,010</u>	<u>494,885</u>	<u>2,267,474</u>	<u>14,396,433</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	4,940,364			878,464	5,818,828
Special	1,054,320			439,722	1,494,042
Vocational	49,004				49,004
Other	4,403				4,403
Support Services:					
Pupils	372,779			65,148	437,927
Instructional Staff	355,358			259,646	615,004
Board of Education	163,515				163,515
Administration	915,121			11,668	926,789
Fiscal	357,724				357,724
Business				41,803	41,803
Operation and Maintenance of Plant	1,426,318				1,426,318
Pupil Transportation	615,362				615,362
Operation of Non-Instructional Services	1,394				1,394
Operation of Non-Instructional Services:					
Food Service Operations				424,723	424,723
Extracurricular Activities	146,488			78,563	225,051
Capital Outlay	50,148		1,398,711		1,448,859
Debt Service:					
Principal		190,000			190,000
Interest		188,931			188,931
<i>Total Expenditures</i>	<u>10,452,298</u>	<u>378,931</u>	<u>1,398,711</u>	<u>2,199,737</u>	<u>14,429,677</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>806,766</u>	<u>(3,921)</u>	<u>(903,826)</u>	<u>67,737</u>	<u>(33,244)</u>
OTHER FINANCING SOURCES AND (USES):					
Transfers In		78,628		20,100	98,728
Transfers Out	(98,728)				(98,728)
<i>Total Other Financing Sources and (Uses)</i>	<u>(98,728)</u>	<u>78,628</u>	<u>0</u>	<u>20,100</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	708,038	74,707	(903,826)	87,837	(33,244)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>2,415,539</u>	<u>799,855</u>	<u>876,006</u>	<u>467,643</u>	<u>4,559,043</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 3,123,577</u>	<u>\$ 874,562</u>	<u>\$ (27,820)</u>	<u>\$ 555,480</u>	<u>\$ 4,525,799</u>

See accompanying notes to the basic financial statements

Fairland Local School District, Ohio
*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*

Net Change in Fund Balances - Total Governmental Funds (\$33,244)

***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:

Capital Asset Additions	1,851,286	
Depreciation Expense	<u>(1,558,456)</u>	292,830

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants	(502,073)	
Delinquent Taxes	<u>(26,666)</u>	(528,739)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 190,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 65,357

Some expenses 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:

Intergovernmental Payables	15,498	
Vacation Benefits Payable	(3,114)	
Sick Leave Benefits Payable	(12,707)	<u>(323)</u>

Change in Net Assets of Governmental Activities (\$14,119)

See accompanying notes to the basic financial statements

Fairland Local School District, Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,139,023	\$ 2,375,583	\$ 2,375,583	\$
Intergovernmental	8,073,977	8,330,335	8,330,335	
Interest	32,000	17,304	17,604	300
Tuition and Fees	435,000	519,269	519,413	144
Miscellaneous	42,384	52,063	52,063	
Total Revenues	<u>10,722,384</u>	<u>11,294,554</u>	<u>11,294,998</u>	<u>444</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,029,001	5,050,059	4,964,407	85,652
Special	1,115,498	1,097,041	1,064,387	32,654
Vocational	45,223	46,123	48,404	(2,281)
Other	12,685	12,685	4,403	8,282
Support Services:				
Pupils	420,803	391,010	372,064	18,946
Instructional Staff	335,939	347,261	368,175	(20,914)
Board of Education	434,098	121,896	85,725	36,171
Administration	805,710	864,175	872,836	(8,661)
Fiscal	308,696	371,278	355,214	16,064
Operation and Maintenance of Plant	1,404,717	1,438,607	1,475,043	(36,436)
Pupil Transportation	556,964	598,250	618,822	(20,572)
Operation of Non-Instructional Services:				
Food Service Operations	6,814	6,414	1,394	5,020
Extracurricular Activities:				
Academic Oriented Activities	2,431	2,431	1,952	479
Sport Oriented Activities	111,076	110,926	114,408	(3,482)
School and Public Service Co-Curricular Activities	33,925	33,925	31,054	2,871
Capital Outlay:				
Site Improvement Services		29,000	25,445	3,555
Architecture and Engineering Services	3,796	28,796	24,703	4,093
Total Expenditures	<u>10,627,376</u>	<u>10,549,877</u>	<u>10,428,436</u>	<u>121,441</u>
Excess of Revenues Over/(Under) Expenditures	<u>95,008</u>	<u>744,677</u>	<u>866,562</u>	<u>121,885</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	30,000			
Proceeds from Sale of Fixed Assets	10,000			
Transfers Out	120,260	117,728	98,728	19,000
Advances Out			3,721	(3,721)
Total Other Financing Sources and Uses	<u>(80,260)</u>	<u>(117,728)</u>	<u>(102,449)</u>	<u>15,279</u>
Net Change in Fund Balances	14,748	626,949	764,113	137,164
Fund Balance (Deficit) at Beginning of Year	3,461,672	3,461,672	3,461,672	
Prior Year Encumbrances Appropriated	96,480	96,480	96,480	
Fund Balance (Deficit) at End of Year	<u>\$ 3,572,900</u>	<u>\$ 4,185,101</u>	<u>\$ 4,322,265</u>	<u>\$ 137,164</u>

See accompanying notes to the basic financial statements

Fairland Local School District, Ohio
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 28,138
<i>Total Current Assets</i>	<u>28,138</u>
<i>Total Assets</i>	<u><u>\$ 28,138</u></u>
LIABILITIES:	
Current Liabilities:	
Due to Students	\$ 28,138
<i>Total Current Liabilities</i>	<u>28,138</u>
<i>Total Liabilities</i>	<u><u>\$ 28,138</u></u>

See accompanying notes to the basic financial statements

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

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board of Education form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 59 noncertified, 109 certificated full time teaching personnel and nine administrators who provide services to 1,838 students.

The Reporting Entity

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

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

The School District is associated with five organizations, two of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations are presented in Note 16 and 17 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Pilasco-Ross Special Education Regional Resource Center
- South Central Ohio Computer Association

Insurance Purchasing Entity Risk Pools:

- The Ohio School Plan
- Ohio School Boards Association Workers' Compensation Group Rating Program
- Lawrence County Schools Insurance Purchasing Consortium

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The statements ordinarily distinguish between activities that are governmental and those that are considered business-type, however, the School District has no activities that are classified as business-type.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds for this School District: Governmental and Fiduciary.

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

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

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Bond Retirement Debt Service Fund The Bond Retirement Debt Service Fund accounts for tax revenues collected to repay outstanding general obligation bonds.

Ohio School Facilities Commission Capital Project Fund The Ohio School Facilities Commission Capital Project Fund accounts for transactions related to the construction of a new high school and additions and renovations to the School Districts' three existing instructional buildings.

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

Fiduciary Fund Types Fiduciary Fund reporting focuses on net assets and changes in net assets. The Fiduciary Fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust Funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are Agency Funds which account for student activity programs.

C. Measurement Focus

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary Funds also use 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 Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and 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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition and fees, and certain grants.

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

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

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

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

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

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

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E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District is responsible for an interest bearing account that consists of retainage held on contracts related to the Ohio Schools Facility Capital Projects Fund. The balance in this account is presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits.

During fiscal year 2004, investments were limited to term and overnight repurchase agreements. These nonparticipating investment contracts are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$17,583, which includes \$5,470 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. 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 is reported in the fiscal year in which services are consumed.

G. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies and donated and purchased food held for consumption.

H. Capital Assets

General capital assets are those assets specifically related to 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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	Governmental Activities Estimated Lives
Land Improvements	20 years
Buildings and Improvements	20 - 50 years
Furniture and Equipment	6 - 20 years
Vehicles	8 years

I. Restricted Assets

Assets are reported as restricted assets 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 government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization and unexpended revenues restricted for the purchase of buses. See Note 20 for additional information regarding set-asides.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation leave is recorded as "accrued vacation leave payable", rather than long-term liabilities, as the balances are to be used by employees within the calendar year earned.

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

The entire sick leave benefit liability is reported on the government-wide financial statements.

On the governmental fund financial statements, sick leave benefits 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 "matured compensated absences payable" in the fund from which the employees will be paid.

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

M. Fund Balance Reserves

The School 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, budget stabilization, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Designated Fund Balance

The School District has a designation of fund balance on the balance sheet of \$362,516 in the General Fund and \$28,924 in all other governmental funds for money set aside by the Board of Education for the potential payment of future health insurance premiums and budget deficits.

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

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O. Net Assets

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

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

P. 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. Neither type of transaction occurred during fiscal year 2004.

Q. Estimates

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

R. 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 of Education's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board of Education. The legal level of control has been established by the Board of Education at the fund level. The School District Treasurer has been given the authority to allocate appropriations among functions and objects within all funds.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment by the Board of Education throughout the fiscal 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

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

Note 3 - Changes in Accounting Principle and Restatement of Prior Year Balances

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

During 2004, the School District performed a revaluation of its capital assets. It was noted that contractual commitments, rather than actual payments, were used to determine capital asset additions in fiscal year 2003. Several assets were improperly classified as capital assets, as the investment did not reach the threshold set by the School District Board of Education. Accumulated depreciation was also miscalculated. These adjustments had the following effects on net assets as it was previously reported at June 30, 2003:

	Governmental Activities
Net Assets as Previously Reported	\$40,688,091
Overstatement of Capital Assets - Buildings	(1,344,091)
Overstatement of Capital Assets - Furniture	(11,531)
Overstatement of Accumulated Depreciation	566,117
Net Assets - June 30, 2003	\$39,898,586

Note 4 – Accountability

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

	Deficit Fund Balances
Special Revenue Funds:	
DPIA	\$83,425
Intervention	\$121
Title V-R, Teacher Quality	264
 Capital Projects Funds	
OSFC Building Fund	27,820

The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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

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

Net Change in Fund Balance	
GAAP Basis	\$708,038
Revenue Accruals	35,934
Beginning of Year:	
Prepaid Items	101,122
End of Year:	
Prepaid Items	(105,277)
Advances Out	(3,721)
Expenditure Accruals	70,975
Encumbrances	(42,958)
Budget Basis	<u><u>\$764,113</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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 School District, and must be purchased with the expectation that it will be held to maturity.

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

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

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

Cash with Fiscal Agents: At year end, the School District's Ohio School Facilities capital projects fund had \$195,360 in cash and cash equivalents with fiscal agents which is included on the balance sheet of the School District as "cash and cash equivalents with fiscal agents."

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$(89,744) and the bank balance was \$93,153. The entire amount of the bank balance was covered by federal deposit insurance.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

	Category 3	Value
Repurchase Agreements	\$6,367,028	\$6,367,028

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$6,277,284	\$0
Repurchase Agreements	(\$6,367,028)	\$6,367,028
GASB Statement 3	(\$89,744)	\$6,367,028

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real

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

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

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

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

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

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

The amount available as an advance at June 30, 2004, was \$39,741 and is recognized as revenue: \$34,815 in the General Fund, \$4,142 in the Bond Retirement Debt Service Fund and \$784 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$70,728 in the General Fund, \$12,448 in the Bond Retirement Debt Service Fund and \$1,618 in the Classroom Facilities Special Revenue Fund.

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

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

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$102,033,720	85%	\$106,785,760	86%
Public Utility Personal	7,903,150	7%	7,798,760	6%
Tangible Personal Property	10,045,150	8%	10,043,060	8%
Total	\$119,982,020	100%	\$124,627,580	100%
Tax rate per \$1,000 of assessed valuation	\$24.02		\$22.88	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes 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. All receivables are expected to be collected within one year. A summary of principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Capital Projects Funds:	
OSFC Building Fund	\$12,482
Special Revenue Funds:	
OhioReads	10,500
Special Education - Grants to States (IDEA-B Grant)	43,190
Title I Grants to Local Educational Agencies (Title I Grant)	85,140
Improving Teacher Quality State Grants (Title II-A)	6,094
Total Special Revenue Funds	144,924
Total Intergovernmental Receivables	<u>\$157,406</u>

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

Note 9 - Capital Assets

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

	Restated Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
Capital Assets:				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$198,591	\$0	\$0	\$198,591
Construction in Progress	0	349,628	0	349,628
Total Capital Assets Not Being Depreciated	<u>198,591</u>	<u>349,628</u>	<u>0</u>	<u>548,219</u>
Depreciable Capital Assets:				
Buildings and Improvements	40,954,316	1,358,564	0	42,312,880
Furniture and Equipment	2,349,681	36,874	0	2,386,555
Vehicles	848,464	106,220	0	954,684
Total Capital Assets Being Depreciated	<u>44,152,461</u>	<u>1,501,658</u>	<u>0</u>	<u>45,654,119</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(4,380,216)	(1,325,966)	0	(5,706,182)
Furniture and Equipment	(253,917)	(167,860)	0	(421,777)
Vehicles	(631,126)	(64,630)	0	(695,756)
Total Accumulated Depreciation	<u>(5,265,259)</u>	<u>(1,558,456) *</u>	<u>0</u>	<u>(6,823,715)</u>
Total Capital Assets Being Depreciated, Net	<u>38,887,202</u>	<u>(56,798)</u>	<u>0</u>	<u>38,830,404</u>
Capital Assets, Net	<u><u>\$39,085,793</u></u>	<u><u>\$292,830</u></u>	<u><u>\$0</u></u>	<u><u>\$39,378,623</u></u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,262,274
Support Services:	
Instructional Staff	138,392
Administration	16,915
Operation of Plant	1,428
Pupil Transportation	66,829
Food Service Operations	16,386
Extracurricular Activities	38,785
Central	17,447
Total Depreciation Expense	<u><u>\$1,558,456</u></u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance for property and fleet insurance.

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

The type and amount of coverage provided follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$48,922,848
Automobile Liability (\$500 deductible):	
Bodily Injury and Property Damage – combined single limit	\$1,000,000
Medical Payments – each person	\$5,000
Uninsured Motorists	\$1,000,000

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	\$3,000,000
Products – Complete Operations Aggregate Limit	\$1,000,000
Fire Legal Liability	\$500,000
Medical Expense Limit – per person/accident	\$10,000
Employers Liability – Stop Gap:	
Per Accident	\$1,000,000
Per Disease Each Employee	\$1,000,000
Per Disease Policy Limit	\$1,000,000
Employee Benefits Liability:	
Per Claim	\$1,000,000
Aggregate Limit	\$3,000,000
Excess Liability:	
Each Occurrence	\$2,000,000
Aggregate Limit	\$2,000,000

B. Worker's Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year, 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, administrators, and classified employees who are contracted to work less than 260 days per year do not earn vacation time.

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 305 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 59 days.

Classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 295 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 57 days.

B. Life Insurance and Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to certified and classified employees through Coresource, Inc., in the amount of \$25,000.

Dental coverage is provided through Coresource Inc. Premiums for this coverage are \$54.38 monthly for family and \$18.27 monthly for single coverage. Employees contribute \$4 for family coverage and \$2 for single coverage.

Health insurance is provided by Medical Mutual of Ohio. Premiums for this coverage are \$1,093 for family coverage and \$443 for single coverage. The School District pays 85% of the premium for certified employees and classified employees who are not members of the non-teaching bargaining unit. The School District pays 80% of the premium for classified employees who are members of the non-teaching bargaining unit.

Vision insurance is provided through VisionPlus Inc. The School District pays 100% of the \$11.65 monthly premium for each employee. Employees may contribute \$16.87 to purchase family coverage if they so desire.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$135,768, \$132,895, and \$87,686 respectively; 53.4 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003, and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$701,153, \$706,946, and \$402,726, respectively; 83.06 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. \$53,935 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

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

Note 13 - Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$53,935 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 0.92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$97,100.

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

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

Note 14 - Long Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Outstanding 6/30/03	Additions	Reductions	Outstanding 6/30/04	Due in One Year
Governmental Activities					
Energy Conservation Bonds 1996 5.95%	\$215,000	\$0	\$70,000	\$145,000	\$70,000
OSFC Bonds, 1999 5.02%	3,570,000	0	120,000	3,450,000	125,000
Sick Leave Benefits	622,478	57,330	44,623	635,185	34,308
Total Governmental Activities					
Long-Term Liabilities	<u>\$4,407,478</u>	<u>\$57,330</u>	<u>\$234,623</u>	<u>\$4,230,185</u>	<u>\$229,308</u>

On December 1, 1996, the School District issued school energy conservation improvement bonds in the amount of \$600,000. The bonds were issued for energy efficiency improvements to School District buildings and will be paid from savings generated from reduced energy costs. The school energy conservation improvement bonds will be paid from the Bond Retirement Debt Service Fund.

On June 8, 1999 the School District issued \$4,005,000 in voted general obligation bonds for the purpose of constructing a new high school and additions and renovations to the three existing instructional buildings. The bonds were issued for a 23 year period with a final maturity at December 1, 2021. The School Improvement General Obligation Bonds will be paid from the Bond Retirement Debt Service Fund.

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and Food Service, Disadvantaged Pupils Impact Aid (DPIA) and Grants to Local Educational Agencies (Title I Grant) Special Revenue Funds.

Fairland Local School District, Ohio
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Annual requirement to school improvement general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$125,000	\$171,175	\$296,175
2006	130,000	165,883	295,883
2007	135,000	160,250	295,250
2008	140,000	154,268	294,268
2009	145,000	147,961	292,961
2010-2014	855,000	619,128	1,474,128
2015-2019	1,110,000	348,000	1,458,000
2020-2022	810,000	62,250	872,250
Total	<u>\$3,450,000</u>	<u>\$1,828,915</u>	<u>\$5,278,915</u>

Annual requirements to retire energy conservation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$70,000	\$8,627	\$78,627
2006	75,000	4,463	79,463
Total	<u>\$145,000</u>	<u>\$13,090</u>	<u>\$158,090</u>

The overall debt margin of the School District as of June 30, 2004, was \$10,361,317, with an unvoted debt margin of \$124,628.

Note 15 – Interfund Balances and Transfers

Interfund receivables and payables at June 30, 2004, consist of the following individual balances, representing monies advanced to federal grant funds to be repaid when grant funds are received:

	Interfund Receivable	Interfund Payable
General Fund:	\$3,721	\$0
Special Revenue Funds:		
Ohio Reads	0	3,721
Total Special Revenue Funds	<u>0</u>	<u>3,721</u>
Total All Funds	<u>\$3,721</u>	<u>\$3,721</u>

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$98,728 to subsidize various programs in other funds.

Note 16 - Jointly Governed Organizations

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an

Fairland Local School District, Ohio
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For Fiscal Year Ended June 30, 2004

annual fee of \$2.00 per student to participating districts and State funding. Fairland Local School District paid \$60,628 for services provided during fiscal year 2004. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Pilasco-Ross is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the South Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2004, the School District paid \$53,924 to Pilasco-Ross. Dawson-Bryant Local School District serves as the fiscal agent for Pilasco-Ross. To obtain financial information write to the Dawson Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

Note 17- Insurance Purchasing Pools

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

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

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

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

Note 18 – Contractual Commitments

As of June 30, 2004, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining On Contract</u>
BBL Maescher	Construction Manager	\$ 3,505
Tanner, Stone and Company	Professional Design Services	\$ 6,313
General Heating and Air Conditioning	HVAC Work	\$ 62,019
Powell, Inc.	Energy Management System	\$ 1,730
B & L Contractors, Inc.	East Renovations General Trades	\$ 98,264
General Heating & Air	HVAC – W/M	\$115,754
RWS Builders	General Trades – W/M	\$ 30,000
Farnham Equipment Company	Loose Equipment	\$ 2,470
Central Insulation System, Inc.	Asbestos Abatement	\$ 13,696
School Specialty Inc.	Loose Equipment	\$ 44,162
Ed Tech Services	Data Voice & Sound	\$ 5,000
Professional Products, Inc.	Technology Equipment	\$ 11,801
J & H Reinforcing and Structural Erectors, Inc.	General Construction	\$ 9,172

Note 19 - Contingencies

A. Grants

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

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

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 20 - Set-Aside Calculations and Fund Reserves

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

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

	<u>Budget</u> <u>Stabilization</u>	<u>Textbooks</u>	<u>Capital</u> <u>Acquisition</u>
Set-aside Cash Balance as of June 30, 2003	\$43,460	\$0	\$0
Current Year Set-aside Requirement	0	213,480	213,480
Additional Amount Set-aside		4,254	4,254
Offsets	0	0	(61,840)
Qualifying Disbursements	0	(217,734)	(161,553)
Required Set aside	43,460	0	(5,659)
Carry over to Fiscal Year 2005	\$43,460	\$0	\$0

Note 21 – State School Funding Decision

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

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

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

Note 22 – Subsequent Events

On September 13, 2004, the Board of Education approved awarding bids for two sixty-five passenger school buses to OBS, Inc. at a cost of \$53,500 each.

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$96,305	\$0	\$96,305
School Breakfast Program	05PU-2003	10.553	4,407		4,407	
	05PU-2004		24,674		24,674	
Total School Breakfast Program			29,081	0	29,081	0
National School Lunch Program	LLP4-2003	10.555	23,613		23,613	
	LLP4-2004		124,363		124,363	
Total National School Lunch Program			147,976	0	147,976	0
Total United States Department of Agriculture - Nutrition Cluster			177,057	96,305	177,057	96,305
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2003	84.010	48,844		75,732	
	C1S1-2004		448,689		434,862	
Total Title I Grants to Local Educational Agencies			497,533	0	510,594	0
Special Education - Grants to States	6BSF-2003-P	84.027	12,953		18,409	
	6BSF-2004		198,441		172,730	
Total Special Education - Grants to States			211,394	0	191,139	0
Safe and Drug-Free Schools and Communities - State Grants	DRS1-2003	84.186	3,585		5,199	
	DRS1-2004		11,196		11,196	
Total Safe and Drug-Free Schools and Communities - State Grants			14,781	0	16,395	0
State Grants for Innovative Programs	C2S1-2003	84.298			1,711	
	C2S1-2004		10,620		9,672	
Total State Grants for Innovative Programs			10,620	0	11,383	0
Education Technology State Grants	TJS1-2004	84.318	14,111		14,111	
Improving Teacher Quality State Grants	TRS1-2003	84.367	10,273		13,752	
	TRS1-2004		106,959		96,083	
Total Improving Teacher Quality State Grants			117,232	0	109,835	0
Total United States Department of Education			865,671	0	853,457	0
Total Federal Awards Receipts and Expenditures			\$1,042,728	\$96,305	\$1,030,514	\$96,305

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Fairland Local School District
Lawrence County
228 Private Drive 10010
Proctorville, Ohio 45669

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fairland Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 26, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated May 26, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Fairland Local School District
Lawrence County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 26, 2005



**Auditor of State
Betty Montgomery**

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

Fairland Local School District
Lawrence County
228 Private Drive 10010
Proctorville, Ohio 45669

To the Board of Education:

Compliance

We have audited the compliance of the Fairland Local School District, Lawrence County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The Summary of Auditor's Results Section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the School 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures 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 School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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www.auditor.state.oh.us

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 26, 2005

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	All monies received by the 8 th Grade Washington D.C. Trip Student Activity Club should be deposited into the School District Treasurer's Office.	Yes	
2003-002	The 8 th Grade Washington D.C. Trip Student Activity Club should issue duplicate receipts for all monies received and keep documentation to support amounts paid into the School District Treasurer's Office. Also, all disbursements should be made by School District purchase orders.	No	Partially Corrected. A management letter comment was issued for the current year.



**Auditor of State
Betty Montgomery**

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FAIRLAND LOCAL SCHOOL DISTRICT

LAWRENCE 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
JUNE 14, 2005**