



**Auditor of State
Betty Montgomery**

FAYETTEVILLE-PERRY LOCAL SCHOOL DISTRICT
BROWN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fayetteville-Perry Local School District
Brown County
501 S. Apple Street
Fayetteville, Ohio 45118-0281

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 Fayetteville-Perry Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fayetteville-Perry Local School District, Brown County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the fiscal year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments*. The District also adopted Governmental Accounting Standards Board Statements 37, 38, 39, 41 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 be 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, consisted principally of inquiries of management regarding the methods of measurement and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

April 14, 2005

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

As management of the Fayetteville-Perry Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the School District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board had elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- The assets of the Fayetteville-Perry Local School District exceeded its liabilities at June 30, 2004 by \$11,808,104.
- The School District's net assets increased by \$455,717 during this year's operations.
- General revenues accounted for \$6,066,230 or 80 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$1,531,533 or 20 percent of total revenues of \$7,597,763.
- The School District had \$7,142,046 in expenses related to governmental activities; only \$1,531,533 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest.

Using the Basic Financial Statements

This report consists of a series of financial statements and the notes to the basic financial statements. These statements are organized so the reader can understand Fayetteville-Perry Local School District as a whole, an entire operating entity.

Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the School District as a whole, and present 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 at the School District's major funds, with all other non-major funds presented in total in one column. The major funds for the Fayetteville-Perry Local School District are the General Fund and the Debt Service Fund.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts 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. The 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. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)

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

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

The School District as a Whole

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 and 2003:

(Table 1)
Net Assets
Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$4,499,521	\$3,778,844
Capital Assets	12,249,500	12,241,945
Total Assets	<u>16,749,021</u>	<u>16,020,789</u>
Liabilities		
Long-Term Liabilities	2,741,758	2,782,861
Other Liabilities	2,199,159	1,885,541
Total Liabilities	<u>4,940,917</u>	<u>4,668,402</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	9,732,318	9,663,847
Restricted	627,809	660,057
Unrestricted	1,447,977	1,028,483
Total Net Assets	<u>\$11,808,104</u>	<u>\$11,352,387</u>

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

Net assets increased by \$455,717. This was primarily due to a \$299,553 increase in taxes receivable and \$433,860 increase in cash and cash equivalents. Capital assets are used to provide services to students and do not represent assets that may be used for future spending. Restricted net assets decreased mainly due to an increase in uncapitalized expenses for building maintenance with no increase to revenues, thereby reducing available cash. Unrestricted net assets increased by \$419,494 which was mainly due to slight increases in state funding offset by minimal increases in expenditures.

Table 2 shows the highlights of the School District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services and sales, restricted grants, contributions and interest. General Revenues include taxes, unrestricted grants, such as state foundation support and rent.

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

(Table 2)
Change in Net Assets

	Governmental Activities <u>2004</u>
Revenues	
Program Revenues:	
Charges for Services and Sales	\$837,322
Operating Grants, Contributions and Interest	661,582
Capital Grants and Contributions	32,629
Total Program Revenues	<u>1,531,533</u>
General Revenues:	
Property Taxes	1,564,540
Grants and Entitlements not Restricted to Specific Programs	4,430,422
Gifts and Donations	591
Investment Earnings	24,954
Miscellaneous	45,723
Total General Revenues	<u>6,066,230</u>
 Total Revenues	 <u>\$7,597,763</u>

(continued)

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

(Table 2)
Change in Net Assets
(continued)

	Governmental Activities 2004
Program Expenses	
Instruction	
Regular	\$2,890,095
Special	726,449
Vocational	122,600
Support Services	
Pupils	296,087
Instructional Staff	577,725
Board of Education	44,550
Administration	672,854
Fiscal	260,581
Operation and Maintenance of Plant	402,028
Pupil Transportation	469,671
Central	7,582
Operation of Non-Instructional Services:	
Other	12,242
Food Services	345,263
Extracurricular Activities	172,935
Interest and Fiscal Charges	141,384
Total Expenses	7,142,046
Increase in Net Assets	\$455,717

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

Governmental Activities

Grants and Entitlements made up 58 percent of revenues for governmental activities of the Fayetteville-Perry Local School District for fiscal year 2004.

Instruction comprises 52 percent of governmental program expenses. Support services expenses make up 38 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)

Governmental Activities		
	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$3,739,144	\$2,735,531
Support Services	2,731,078	2,562,254
Operation of Non-Instructional Services	357,505	46,451
Extracurricular Activities	172,935	124,893
Interest and Fiscal Charges	141,384	141,384
Total Expenses	\$7,142,046	\$5,610,513

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,624,919 and expenditures of \$7,286,601. The net change in fund balance for the year was most significant in the General Fund, an increase of \$460,699. This increase was caused primarily by the increase in tuition and fees revenue. The net change in fund balance for the year in Debt Service Fund was a decrease of \$7,575. This decrease was caused primarily by the increase in debt payments from the new issuance of bonds.

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

General Fund - Budget 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. During the course of fiscal year 2004 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

The School District's ending unobligated cash balance was \$2,295 above the final budgeted amount in the General Fund.

For the General Fund, budget basis actual revenue was \$6,600,702 with original budget estimates of \$5,702,898.

Capital Assets and Debt Administration

Capital Assets

The Fayetteville-Perry Local School District's investment in capital assets as of June 30, 2004 was \$12,249,500. This investment in capital assets includes land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

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

	2004	2003
Land	\$89,380	\$89,380
Land Improvements	63,731	48,994
Buildings and Improvements	11,133,203	11,099,435
Furniture, Fixtures, and Equipment	546,025	588,871
Vehicles	417,161	415,265
Totals	\$12,249,500	\$12,241,945

Net capital assets increased \$7,555 from the prior year. This is mainly due to additions of fixed assets with the offset of depreciation expense and the deletions of furniture, fixtures and equipment and vehicles.

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

*Fayetteville-Perry Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited
(Continued)*

Debt

At June 30, 2004 the School District had \$2,517,182 in bonds outstanding with \$175,077 due within one year. Table 5 summarizes bonds and notes outstanding:

(Table 5)
Outstanding Debt, at Year End
Governmental Activities

	2004	2003
General Obligation Bonds:		
2003 Various Purpose Bonds 4.10%	\$90,888	\$0
2001 Technology Equipment Acquisition Bonds 4.78%	30,154	58,916
2001 Various Purpose Refunding Bonds 4.78%	36,140	70,609
1996 School Improvement Bonds 6.00%	1,970,000	2,020,000
1995 School Improvement Bonds 6.25%	390,000	410,000
General Obligation Notes		
1993 Energy Conservation Loan 3.79%	0	18,573
Totals	<u>\$2,517,182</u>	<u>\$2,578,098</u>

The School District's overall legal debt margin was \$4,309,395 with an unvoted debt margin of \$71,555 at June 30, 2004

For more information on debt, refer to note 13 to the basic financial statements.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Jo Anna Carraher, Treasurer, at Fayetteville-Perry Local School District, 501 S. Apple Street, Fayetteville, Ohio 45118-0281.

Fayetteville-Perry Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,642,966
Accounts Receivable	371
Prepaid Items	10,466
Materials and Supplies Inventory	7,897
Intergovernmental Receivable	26,682
Taxes Receivable	1,811,139
Capital Assets:	
Land	89,380
Depreciable Capital Assets, Net	<u>12,160,120</u>
<i>Total Assets</i>	<u>16,749,021</u>
Liabilities	
Accounts Payable	10,478
Accrued Wages and Benefits	535,416
Intergovernmental Payable	180,851
Deferred Revenue	1,459,532
Accrued Interest Payable	12,882
Long-Term Liabilities:	
Due Within One Year	198,609
Due in More Than One Year	<u>2,543,149</u>
<i>Total Liabilities</i>	<u>4,940,917</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	9,732,318
Restricted for:	
Capital Outlay	86,620
Debt Service	381,916
Other Purposes	159,273
Unrestricted	<u>1,447,977</u>
<i>Total Net Assets</i>	<u><u>\$11,808,104</u></u>

See accompanying notes to the basic financial statements

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Fayetteville-Perry Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Expenses	Charges for Services and Sales	Program Revenues, Operating Grants, Contributions and Interest
<u>Governmental Activities</u>		
Instruction:		
Regular	\$2,890,095	\$557,098
Special	726,449	0
Vocational	122,600	0
Support Services:		
Pupils	296,087	0
Instructional Staff	577,725	0
Board of Education	44,550	0
Administration	672,854	0
Fiscal	260,581	0
Operation and Maintenance of Plant	402,028	0
Pupil Transportation	469,671	0
Central	7,582	0
Operation of Non-Instructional Services:		
Other	12,242	0
Food Services	345,263	233,564
Extracurricular Activities	172,935	46,660
Interest and Fiscal Charges	141,384	0
Total Governmental Activities	\$7,142,046	\$661,582

General Revenues:

Property Taxes Levied for:

 General Purposes

 Debt Service

 Capital Outlay

Grants and Entitlements not

 Restricted to Specific Programs

Gifts and Donations

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

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

Net Assets End of Year

See accompanying notes to the basic financial statements

<u>Capital Grants and Contributions</u>	<u>Net(Expense) Revenue and Changes in Net Assets</u>
	<u>Governmental Activities</u>
\$0	(\$2,254,125)
0	(388,908)
0	(92,498)
0	(220,821)
22,550	(529,673)
0	(44,550)
0	(642,459)
0	(260,581)
0	(402,028)
10,079	(454,560)
0	(7,582)
0	(12,242)
0	(34,209)
0	(124,893)
0	(141,384)
<u>\$32,629</u>	<u>(5,610,513)</u>
	1,286,555
	187,237
	90,748
	4,430,422
	591
	24,954
	<u>45,723</u>
	<u>6,066,230</u>
	455,717
	<u>11,352,387</u>
	<u>\$11,808,104</u>

Fayetteville-Perry Local School District

Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,049,710	\$351,954	\$231,222	\$2,632,886
Materials and Supplies Inventory	0	0	7,897	7,897
Accounts Receivable	371	0	0	371
Intergovernmental Receivable	678	0	26,004	26,682
Prepaid Items	9,260	0	1,206	10,466
Property Taxes Receivable	1,511,362	200,584	99,193	1,811,139
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	10,080	0	0	10,080
<i>Total Assets</i>	<u>\$3,581,461</u>	<u>\$552,538</u>	<u>\$365,522</u>	<u>\$4,499,521</u>
Liabilities				
Accounts Payable	\$9,375	\$0	\$1,103	\$10,478
Accrued Wages and Benefits	502,663	0	32,753	535,416
Intergovernmental Payable	110,857	0	3,691	114,548
Deferred Revenue	1,279,787	165,950	82,502	1,528,239
<i>Total Liabilities</i>	<u>1,902,682</u>	<u>165,950</u>	<u>120,049</u>	<u>2,188,681</u>
Fund Balances				
Reserved for Encumbrances	131,283	0	44,391	175,674
Reserved for Property Taxes	229,467	34,420	16,583	280,470
Reserved for Bus Purchases	10,080	0	0	10,080
Unreserved:				
Undesignated, Reported in:				
General Fund	1,307,949	0	0	1,307,949
Special Revenue Funds	0	0	159,178	159,178
Debt Service Fund	0	352,168	0	352,168
Capital Projects Funds	0	0	25,321	25,321
<i>Total Fund Balances</i>	<u>1,678,779</u>	<u>386,588</u>	<u>245,473</u>	<u>2,310,840</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,581,461</u>	<u>\$552,538</u>	<u>\$365,522</u>	<u>\$4,499,521</u>

See accompanying notes to the basic financial statements

Fayetteville-Perry Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balances \$2,310,840

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

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

Land	89,380	
Other capital assets	15,663,884	
Accumulated depreciation	<u>(3,503,764)</u>	
Total capital assets		12,249,500

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

Delinquent property taxes		68,707
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Intergovernmental Payable includes contractually required pension contributions
 not expected to be paid with expendable available financial resources and
 therefore not reported in the funds.

(66,303)

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

Bonds payable	(2,517,182)	
Accrued interest on bonds	(12,882)	
Compensated absences	<u>(224,576)</u>	
Total liabilities		<u>(2,754,640)</u>

Net Assets of Governmental Activities

\$11,808,104

See accompanying notes to the basic financial statements

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

	General Fund	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,303,443	\$189,799	\$92,164	\$1,585,406
Intergovernmental	4,701,741	22,853	387,601	5,112,195
Interest	24,237	0	717	24,954
Tuition and Fees	515,857	0	35,532	551,389
Rent	5,709	0	0	5,709
Extracurricular Activities	0	0	46,660	46,660
Gifts and Donations	114	0	19,205	19,319
Customer Sales and Services	0	0	233,564	233,564
Miscellaneous	37,150	0	8,573	45,723
Total Revenues	6,588,251	212,652	824,016	7,624,919
Expenditures				
Current:				
Instruction:				
Regular	2,655,551	0	122,045	2,777,596
Special	627,048	0	87,435	714,483
Vocational	117,125	0	1,092	118,217
Support Services:				
Pupils	212,797	0	69,582	282,379
Instructional Staff	488,604	0	38,028	526,632
Board of Education	44,550	0	0	44,550
Administration	605,885	0	28,360	634,245
Fiscal	244,557	5,527	2,710	252,794
Operation and Maintenance of Plant	609,820	0	98,322	708,142
Pupil Transportation	423,198	0	167	423,365
Central	7,582	0	0	7,582
Operation of Non-Instructional Services:				
Other	15,456	0	0	15,456
Food Services	0	0	301,777	301,777
Extracurricular Activities	102,048	0	63,142	165,190
Debt Service				
Principal Retirement	49,993	88,573	22,350	160,916
Interest and Fiscal Charges	3,946	145,720	3,611	153,277
Total Expenditures	6,208,160	239,820	838,621	7,286,601
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>380,091</i>	<i>(27,168)</i>	<i>(14,605)</i>	<i>338,318</i>
Other Financing Sources and Uses				
Transfers-In	0	19,593	0	19,593
Proceeds from Sale of Capital Assets	201	0	0	201
Proceeds from Sale of Bonds	100,000	0	0	100,000
Transfers-Out	(19,593)	0	0	(19,593)
Total Other Financing Sources and Uses	80,608	19,593	0	100,201
Net Change in Fund Balances	460,699	(7,575)	(14,605)	438,519
Fund Balance at Beginning of Year (Restated - Note 3)	1,218,080	394,163	260,078	1,872,321
Fund Balance at End of Year	\$1,678,779	\$386,588	\$245,473	\$2,310,840

See accompanying notes to the basic financial statements

Fayetteville-Perry Local School District
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$438,519

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

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

Capital asset additions	460,878	
Depreciation expense	(423,815)	
Excess of depreciation expense over capital outlay		37,063

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

Proceeds from the sale of capital assets	(201)	
Loss on sale of capital assets	(29,307)	
		(29,508)

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

Delinquent property taxes	(20,866)	
Intergovernmental	(6,290)	
		(27,156)

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

Bond payments	142,343	
Note Payments	18,573	
Total long-term debt repayment		160,916

Bond Proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. (100,000)

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

Increase in compensated absences payable	(19,813)	
Decrease in accrued interest payable	11,893	
Increase in intergovernmental payable	(16,197)	
Total (increase)/decrease		(24,117)

Change in Net Assets of Governmental Activities \$455,717

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$1,231,096	\$1,302,635	\$1,302,635	\$0
Intergovernmental	4,362,802	4,714,856	4,714,856	0
Interest	20,000	21,918	24,237	2,319
Tuition and Fees	48,000	515,857	515,857	0
Rent	6,000	5,853	5,853	0
Gifts and Donations	0	114	114	0
Miscellaneous	35,000	37,145	37,150	5
Total Revenues	5,702,898	6,598,378	6,600,702	2,324
Expenditures:				
Current:				
Instruction:				
Regular	2,053,463	2,627,110	2,627,138	(28)
Special	161,704	627,435	627,435	0
Vocational	75,170	116,383	116,383	0
Support Services:				
Pupils	118,785	212,481	212,482	(1)
Instructional Staff	233,542	492,347	492,345	2
Board of Education	0	45,618	45,618	0
Administration	392,033	616,366	616,367	(1)
Fiscal	118,473	250,217	250,218	(1)
Operation and Maintenance of Plant	244,772	669,108	669,108	0
Pupil Transportation	234,249	502,177	502,177	0
Central	2,259	7,541	7,541	0
Operation of Non-Instructional Services	0	15,456	15,456	0
Extracurricular Activities	23,280	101,110	101,110	0
Debt Service:				
Principal Retirement	0	49,993	49,993	0
Interest and Fiscal Charges	0	3,946	3,946	0
Total Expenditures	3,657,730	6,337,288	6,337,317	(29)
Excess of Revenues Over Expenditures	2,045,168	261,090	263,385	2,295
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	10,000	201	201	0
Proceeds from Sale of Bonds	0	100,000	100,000	0
Advances In	0	4,848	4,848	0
Transfers Out	0	(19,593)	(19,593)	0
Advances Out	0	(4,848)	(4,848)	0
Total Other Financing Sources (Uses)	10,000	80,608	80,608	0
Net Change in Fund Balance	2,055,168	341,698	343,993	2,295
Fund Balance at Beginning of Year	1,444,600	1,444,600	1,444,600	0
Prior Year Encumbrances Appropriated	130,537	130,537	130,537	0
Fund Balance at End of Year	\$3,630,305	\$1,916,835	\$1,919,130	\$2,295

See accompanying notes to the basic financial statements

Fayetteville-Perry Local School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$3,181	\$26,716
Liabilities		
Undistributed Monies	0	\$26,716
<i>Total Liabilities</i>	0	\$26,716
Net Assets		
Held in Trust for Scholarships	3,181	
<i>Total Net Assets</i>	\$3,181	

See accompanying notes to the basic financial statements

Fayetteville-Perry Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2004

	Private Purpose Trust
	Scholarship
Additions	
Interest	\$31
Deductions	
Payments in Accordance with Trust Agreements	500
<i>Change in Net Assets</i>	(469)
<i>Net Assets at Beginning of Year</i>	3,650
<i>Net Assets at End of Year</i>	\$3,181

See accompanying notes to the basic financial statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The Fayetteville-Perry Local School District was established in 1895 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 62 square miles. It is located in Brown County and includes the Village of Fayetteville and Perry Township.

Reporting Entity:

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

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

The School District participates in four organizations, two of which are defined as jointly governed organizations, one as a public entity shared risk and insurance purchasing pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Brown County Schools Benefits Consortium, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 15, 16, and 17 of the basic financial statements.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds

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

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

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

C. Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

D. Basis of Accounting

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Non-exchange Transactions:

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

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

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

Deferred Revenue:

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

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

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

Expenses/Expenditures:

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

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

During fiscal year 2004, the School District’s investments were limited to STAROhio and repurchase agreements. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$24,237, which includes \$6,655 assigned from other School District funds.

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

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of purchased food and consumable supplies.

G. Restricted Assets

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

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

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

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

<u>Description</u>	<u>Esimtated Lives</u>
Land Improvements	5 years
Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	8 - 10 years
Vehicles	10 years

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District had 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 fourteen years of current service with the School District.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and loans that will be paid from governmental funds are recognized as a liability on the government-wide financial statements when due.

K. 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 resources restricted for food service operations and music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

L. Fund Balance Reserves

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Interfund Transactions

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

N. 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.

O. Budgetary Process

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

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

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

For fiscal year 2004, the School District has implemented *GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”*, *GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”*, *GASB Statement No. 38, “Certain Financial Statement Note Disclosures”*, *GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”*, *GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”*, and *GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”*

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

GASB Statement No. 37 clarifies certain provisions of *GASB Statement No. 34*, including the required content of Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, 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.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

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

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

The implementation of these statements and the reclassification of the Food Service Fund and Uniform School Supply Fund from an Enterprise Fund to Special Revenue Fund had the following effect on the fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$1,205,007	\$394,163	\$179,137	\$1,778,307
Interpretation No. 6 Adjustments	13,073	0	0	13,073
Fund Reclassifications	0	0	80,941	80,941
Adjusted Fund Balance, June 30, 2003	<u>\$1,218,080</u>	<u>\$394,163</u>	<u>\$260,078</u>	1,872,321
GASB No. 34 Adjustments:				
Deferred Assets:				
Intergovernmental Receivables				6,290
Delinquent Property Taxes				89,573
Capital Assets				12,241,945
Intergovernmental Payable				(50,106)
Accrued Interest Payable				(24,775)
Long-Term Liabilities:				
Bonds Payable				(2,578,098)
Compensated Absences				<u>(204,763)</u>
Governmental Activities Net Assets, June 30, 2003				<u>\$11,352,387</u>

	<u>Enterprise Fund</u>
Fund Equity, June 30, 2003	\$80,941
Fund Reclassification	<u>(80,941)</u>
Restated Fund Equity, June 30, 2003	<u>\$0</u>

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$460,699
Adjustments:	
Revenue Accruals	12,451
Expenditure Accruals	11,503
Encumbrances	<u>(140,660)</u>
Budget Basis	<u><u>\$343,993</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was (\$123,654) and the bank balance was \$67,000. The entire bank balance was covered by federal depository 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 fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Fair Value
STAROhio	\$0	\$2,472,348
Repurchase Agreements	324,169	324,169
Total	\$324,169	\$2,796,517

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

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,672,863	\$0
Investments:		
Star Ohio	(2,472,348)	2,472,348
Repurchase Agreements	(324,169)	324,169
GASB Statement No. 3	(\$123,654)	\$2,796,517

NOTE 6 - PROPERTY TAXES

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

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

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

Tangible personal property tax revenue received during calendar year 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-three 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. This year the June 2004 personal property tax was not received until July, 2004.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES (continued)

The School District receives property taxes from Brown 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 \$229,467 in the General Fund, \$34,420 in the Debt Service Fund, \$5,110 in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund, and \$11,473 in the Permanent Improvement Nonmajor Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$230,767 in the General Fund, \$34,602 in the Debt Service Fund, \$5,766 in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund, and \$11,534 in the Permanent Improvement Nonmajor Capital Projects Fund.

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

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

	2003 Second - Half Collections		2004 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Real Property	\$58,666,350	94.92%	\$68,378,300	95.57%
Public Utility Personal Property	2,591,070	4.19%	2,614,500	3.65%
Tangible Personal Property	547,330	0.89%	562,587	0.78%
Total Assessed Value	<u>\$61,804,750</u>	<u>100.00%</u>	<u>\$71,555,387</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.10		\$33.60	

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 7 - RECEIVABLES

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

	<u>Amounts</u>
Governmental Activities:	
School Foundation adjustments	\$678
Federal School Lunch Program	9,032
Title Idea Part-B	7,822
Title I	9,150
Total Intergovernmental Receivables	\$26,682

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/04</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$89,380	\$0	\$0	\$89,380
Capital Assets Being Depreciated:				
Land Improvements	883,498	15,422	0	898,920
Buildings and Improvements	12,562,183	333,544	0	12,895,727
Furniture, Fixtures and Equipment	1,052,626	49,701	(83,963)	1,018,364
Vehicles	841,362	62,211	(52,700)	850,873
Totals Capital Assets, Being Depreciated	15,339,669	460,878	(136,663)	15,663,884
Less Accumulated Depreciation:				
Land Improvements	(834,504)	(685)	0	(835,189)
Building and Improvements	(1,462,748)	(299,776)	0	(1,762,524)
Furniture, Fixtures and Equipment	(463,755)	(63,039)	54,455	(472,339)
Vehicles	(426,097)	(60,315)	52,700	(433,712)
Total Accumulated Depreciation	(3,187,104)	(423,815) *	107,155	(3,503,764)
Total Capital Assets Being Depreciated, Net	12,152,565	37,063	(29,508)	12,160,120
Governmental Activities Capital Assets, Net	\$12,241,945	\$37,063	(\$29,508)	\$12,249,500

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$165,608
Special	16,148
Vocational	4,383
Support Services:	
Pupils	6,574
Instructional Staff	42,844
Administration	21,696
Fiscal	7,696
Operation and Maintenance of Plant	32,680
Pupil Transportation	91,615
Central	
Operation of Non-Instructional Services - Food Services	29,735
Extracurricular Activities	4,836
Total Depreciation Expense	<u><u>\$423,815</u></u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance for general liability insurance with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Property is protected by Selective Insurance Company and holds a \$1,000 deductible.

The School District's vehicles are covered by Selective Insurance Company under a business policy and hold a \$500 deductible for comprehensive and collision, with a \$1,000,000 limit on any accident.

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 9 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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 provides administrative, cost control and actuarial services to the GRP. Each year the School District pays an enrollment fee to the GRP to cover costs of administering the program.

C. Employee Medical

The School District participated in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 16) consisting of six districts. The School District has elected to have Medical Mutual provide medical coverage and the dental coverage is being provided through a shared risk pool. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 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 \$96,524, \$85,701 and \$53,687 respectively; 52.85 percent has been contributed for fiscal year 2004 and 100 percent 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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strs.oh.org.

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 10 - PENSION PLANS (continued)

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

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

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

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$381,806, \$332,432, and \$229,829, respectively; 82.44 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$7,801 made by the School District and \$11,608 made by the plan members.

C. Social Security System

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$29,370 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$66,790.

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days. If an employee chooses to retire in the first year in which they become eligible, they will be compensated for one-half of the accrued, but unused sick leave credit to a maximum of 103 days.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Jefferson Pilot. Dental insurance is provided by the School District to all employees through CoreSource, Inc.

NOTE 13 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
<i>Governmental Activities:</i>					
Various Purpose Bonds 2003 4.10%	\$0	\$100,000	\$9,112	\$90,888	\$18,783
Technology Equipment Acquisition Bonds 2001 4.78%	58,916	0	28,762	30,154	30,154
Various Purpose Refunding Bonds 2001 4.78%	70,609	0	34,469	36,140	36,140
School Improvement Bonds 1996 6.00%	2,020,000	0	50,000	1,970,000	75,000
School Improvement Bonds 1995 6.25%	410,000	0	20,000	390,000	15,000
Energy Conservation Loan 1993 3.79%	18,573	0	18,573	0	0
Compensated Absences	204,763	53,667	33,854	224,576	23,532
Total Governmental Activities Long-Term Obligations	<u>\$2,782,861</u>	<u>\$153,667</u>	<u>\$194,770</u>	<u>\$2,741,758</u>	<u>\$198,609</u>

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

Various Purpose Bonds 2003

The School District issued \$100,000 in voted general obligation bonds for the purpose of purchasing computers, copiers, printer, and a school bus. The bonds were issued for a five year period with final maturity on September 19, 2008. The bonds will be retired from the Permanent Improvement Fund.

Technology Equipment Acquisition Bonds 2001

The School District issued \$112,520 in unvoted general obligation bonds for the purpose of purchasing technology equipment. The bonds were issued for a four year period with final maturity on June 5, 2005. The bonds will be retired from the General and Capital Projects Funds.

Various Purpose Refunding Bonds 2001

The School District issued \$134,846 in voted general obligation bonds for the purpose of using proceeds to refund \$49,350 of the 2000 bus acquisition bonds, \$51,528 of the 2000 computer equipment acquisition bonds, and \$32,666 of a capital lease agreement for a school bus, including \$1,302 in accrued interest. The average interest rate of the refunded debt was 5.95%. The bonds were issued for a four year period with maturity on June 5, 2005. The School District issued this debt to consolidate and reduce yearly debt payments and to obtain a lower interest rate. The bonds will be retired from the General Fund.

School Improvement Bonds 1996

The School District issued \$2,587,000 in voted general obligation bonds for the purpose of constructing a new middle school building. The bonds were issued for a twenty-three year period with final maturity on December 1, 2019. The bonds will be retired from the Debt Service Fund.

School Improvement Bonds 1995

The School District issued \$505,000 in voted general obligation bonds for the purpose of constructing an addition and improvement to the elementary and high school building. The bonds were issued for a twenty-three year period with final maturity on December 1, 2018. The bonds will be retired from the Debt Service Fund.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 13 – LONG-TERM OBLIGATIONS (continued)

Energy Conservation Loan 1993

On August 12, 1993, the Fayetteville-Perry Local School District issued \$220,000 in unvoted general obligation debt for the purpose of providing energy conservation measures for the Fayetteville-Perry Local School District, under authority of the Ohio Revised Code sections 133.06(G) and 3313.372. The loan was issued for a ten year period with final maturity during fiscal year 2004. The interest rate for the final five years is variable based on the weekly average of the one year Treasury Constant Maturities. The debt was retired from the Debt Service Fund in fiscal year 2004.

Compensated absences will be paid from the General and Food Service Funds.

The School District's overall legal debt margin was \$4,309,395 with an unvoted debt margin of \$71,555 at June 30, 2004.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$175,077	\$145,779	\$320,856
2006	114,566	137,021	251,587
2007	125,376	130,166	255,542
2008	156,220	122,078	278,298
2009	160,938	112,593	273,531
2010 - 2014	895,000	411,105	1,306,105
2015 - 2019	890,005	116,625	1,006,630
Total	<u>\$2,517,182</u>	<u>\$1,175,367</u>	<u>\$3,692,549</u>

NOTE 14 – INTERFUND ACTIVITY

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

Transfer To	Transfer From General
Debt Service Fund	\$19,593

Transfers were made to make annual debt service payments.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, Lawrence, Pickaway, and Gallia Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$43,690 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 16 – PUBLIC ENTITY SHARED RISK AND INSURANCE PURCHASING POOL

Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Dental coverage is administered through a third party administrator, CoreSource. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium.

The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and dental benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member shall assume and be responsible for the payment of any delinquent contributions relating to the medical insurance and all claims related to dental of its employees from the date of termination, regardless of the date such claims were incurred. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 17 – INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

NOTE 18 - 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.

Fayetteville-Perry Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2003	(\$318,747)	\$0
Current Year Set-aside Requirement	132,409	132,409
Current Year Offsets	0	(33,295)
Qualifying Disbursements	<u>(153,613)</u>	<u>(424,600)</u>
Set-aside Balance Carried Forward to Future Years	<u>(\$339,951)</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

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

NOTE 19 – STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 20 - CONTINGENCIES

A. Grants

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

B. Litigation

The School District is not party to any legal proceeding.



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

Fayetteville-Perry Local School District
Brown County
501 S. Apple Street
Fayetteville, Ohio 45118-0281

To the Board of Education:

We have audited the financial statements of Fayetteville-Perry Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated April 14, 2005, which we noted the District adopted Governmental Accounting Standards Board Statements No. 34, 37, 38, 39, 41, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures in order to express our opinion 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 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 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 to be material weaknesses. In a separate letter to the District's management dated April 14, 2005 we reported other matters involving internal control over financial reporting that we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 District's management dated April 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and the Board of Education.
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

April 14, 2005

**FAYETTEVILLE-PERRY LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

None



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

**FAYETTEVILLE-PERRY LOCAL SCHOOL DISTRICT
BROWN 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
MAY 5, 2005**