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AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet – All Fund Types and Account Groups For the Fiscal Year Ended June 30, 2002	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types For the Fiscal Year Ended June 30, 2002	9
Combined Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budget Basis) – All Governmental Fund Types For the Fiscal Year Ended June 30, 2002	10
Combined Statement of Revenues, Expenses and Changes in Fund Equity Proprietary Fund Type For the Fiscal Year Ended June 30, 2002	13
Combined Statement of Revenues, Expenses and Changes in Fund Equity Budget and Actual (Budget Basis) – Proprietary Fund Type For the Fiscal Year Ended June 30, 2002	14
Combined Statement of Cash Flows – Proprietary Fund Type For the Fiscal Year Ended June 30, 2002	15
Notes to the General Purpose Financial Statements.....	16
Schedule of Federal Awards, Receipts and Expenditures.....	39
Notes to the Schedule of Federal Awards, Receipts and Expenditures	40
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	43
Schedule of Findings - <i>OMB Circular A-133 § .505</i>	45
Schedule of Prior Audit Findings - <i>OMB Circular A-133 §.315(b)</i>	47

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Fairland Local School District, Lawrence County, Ohio (the School District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairland Local School District, Lawrence County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2002 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards, Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. In our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 30, 2002

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FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,208,470	\$579,876	\$564,942	\$10,716,996
Receivables:				
Property Taxes	2,129,110	49,476	374,723	0
Intergovernmental	0	61,615	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	16,739	799	0	0
Prepaid Items	96,595	12,463	0	735
Restricted Assets:				
Cash and Cash Equivalents With Fiscal and Escrow Agents	125,383 0	0 0	0 0	0 561,036
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	<u>\$5,576,297</u>	<u>\$704,229</u>	<u>\$939,665</u>	<u>\$11,278,767</u>

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$8,855	\$17,045	\$0	\$0	\$15,096,184
0	0	0	0	2,553,309
0	0	0	0	61,615
22,303	0	0	0	22,303
352	0	0	0	17,890
4,530	0	0	0	114,323
0	0	0	0	125,383
0	0	0	0	561,036
18,441	0	37,293,774	0	37,312,215
0	0	0	571,918	571,918
0	0	0	4,118,217	4,118,217
<u>\$54,481</u>	<u>\$17,045</u>	<u>\$37,293,774</u>	<u>\$4,690,135</u>	<u>\$60,554,393</u>

(Continued)

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$69,925	\$4,029	\$0	\$65,884
Contracts Payable	0	0	0	2,273,497
Accrued Wages and Benefits Payable	994,173	164,703	0	0
Compensated Absences Payable	6,696	26,594	0	0
Retainage Payable	0	0	0	561,036
Intergovernmental Payable	192,245	30,979	0	0
Deferred Revenue	2,089,471	75,169	367,747	0
Due to Students	0	0	0	0
Energy Conservation Notes Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	3,352,510	301,474	367,747	2,900,417
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved (Deficit)	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	60,823	3,261	0	8,012,073
Reserved for Inventory	16,739	799	0	0
Reserved for Budget Stabilization	43,460	0	0	0
Reserved for Property Taxes	39,639	922	6,976	0
Reserved for Bus Purchases	81,923	0	0	0
Unreserved:				
Designated	58,859	0	0	0
Undesignated	1,922,344	397,773	564,942	366,277
Total Fund Equity and Other Credits	2,223,787	402,755	571,918	8,378,350
Total Liabilities, Fund Equity and Other Credits	\$5,576,297	\$704,229	\$939,665	\$11,278,767

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
		\$0	\$0	\$139,838
		0	0	2,273,497
		32,705	0	1,191,581
		15,150	0	686,776
		0	638,336	561,036
		5,161	0	315,184
		0	86,799	2,532,387
		0	0	17,045
	17,045	0	0	280,000
	0	0	280,000	3,685,000
	0	0	3,685,000	
53,016	17,045	0	4,690,135	11,682,344
0	0	37,293,774	0	37,293,774
204,592	0	0	0	204,592
(203,127)	0	0	0	(203,127)
0	0	0	0	8,076,157
0	0	0	0	17,538
0	0	0	0	43,460
0	0	0	0	47,537
0	0	0	0	81,923
0	0	0	0	58,859
0	0	0	0	3,251,336
1,465	0	37,293,774	0	48,872,049
\$54,481	\$17,045	\$37,293,774	\$4,690,135	\$60,554,393

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FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<u>Revenues:</u>					
Property Taxes	\$2,067,265	\$49,375	\$363,838	\$0	\$2,480,478
Intergovernmental	7,851,845	1,085,660	52,204	12,728,551	21,718,260
Interest	95,540	0	0	673,143	768,683
Tuition and Fees	13,978	0	0	0	13,978
Rent	300	0	0	0	300
Gifts and Donations	0	10,505	0	0	10,505
Extracurricular Activities	0	206,275	0	0	206,275
Miscellaneous	5,358	0	0	14,800	20,158
Total Revenues	10,034,286	1,351,815	416,042	13,416,494	25,218,637
<u>Expenditures:</u>					
Current:					
Instruction					
Regular	4,505,911	744,955	0	125,239	5,376,105
Special	1,117,119	260,093	0	0	1,377,212
Vocational	41,790	0	0	0	41,790
Adult/Continuing	0	0	0	0	0
Other	8,217	0	0	0	8,217
Support Services					
Pupils	340,262	78,905	0	0	419,167
Instructional Staff	271,425	132,292	0	9,762	413,479
Board of Education	108,223	0	0	0	108,223
Administration	753,332	0	0	0	753,332
Fiscal	361,023	0	0	0	361,023
Business	0	60,229	0	0	60,229
Operation and Maintenance of Plant	966,125	0	0	0	966,125
Pupil Transportation	481,201	0	0	0	481,201
Non-Instructional Services	0	0	0	0	0
Extracurricular Activities	116,672	71,821	0	0	188,493
Capital Outlay	90,888	0	0	16,991,067	17,081,955
Debt Service					
Principal Retirement	0	0	170,000	0	170,000
Interest and Fiscal Charges	0	0	205,315	0	205,315
Total Expenditures	9,162,188	1,348,295	375,315	17,126,068	28,011,866
Excess of Revenues Over (Under) Expenditures	872,098	3,520	40,727	(3,709,574)	(2,793,229)
<u>Other Financing Sources (Uses):</u>					
Operating Transfers In	0	80,000	80,230	313,307	473,537
Operating Transfers Out	(511,537)	0	0	0	(511,537)
Total Other Financing Sources (Uses)	(511,537)	80,000	80,230	313,307	(38,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	360,561	83,520	120,957	(3,396,267)	(2,831,229)
Fund Balance at Beginning of Year	1,859,641	321,808	450,961	11,774,617	14,407,027
Decrease in Reserve for Inventory	3,585	(2,573)	0	0	1,012
Fund Balance at End of Year	\$2,223,787	\$402,755	\$571,918	\$8,378,350	\$11,576,810

See accompanying notes to the general purpose financial statements

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<u>Revenues:</u>			
Property Taxes	\$2,056,523	\$2,056,523	\$0
Intergovernmental	7,851,845	7,851,845	0
Interest	91,864	95,540	3,676
Tuition and Fees	13,978	13,978	0
Rent	300	300	0
Gifts and Donations	0	0	0
Extracurricular Activities	0	0	0
Miscellaneous	10,138	11,176	1,038
Total Revenues	10,024,648	10,029,362	4,714
<u>Expenditures:</u>			
<u>Current:</u>			
<u>Instruction:</u>			
Regular	4,630,941	4,575,478	55,463
Special	1,105,063	1,104,563	500
Vocational	47,340	46,383	957
Other	7,000	6,717	283
<u>Support Services:</u>			
Pupils	358,287	337,509	20,778
Instructional Staff	283,207	278,396	4,811
Board of Education	153,980	153,759	221
Administration	789,270	766,549	22,721
Fiscal	367,890	363,715	4,175
Business	0	0	0
Operation and Maintenance of Plant	971,495	971,384	111
Pupil Transportation	563,101	560,323	2,778
Central	0	0	0
Extracurricular Activities	137,482	134,324	3,158
Capital Outlay	92,623	92,624	(1)
Debt Service			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	9,507,679	9,391,724	115,955
Excess of Revenues Over (Under) Expenditures	516,969	637,638	120,669
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	0	0	0
Advances In	20,000	20,000	0
Operating Transfers Out	(511,537)	(511,537)	0
Total Other Financing Sources (Uses)	(491,537)	(491,537)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	25,432	146,101	120,669
Fund Balance at Beginning of Year	2,985,085	2,985,085	0
Prior Year Encumbrance Appropriated	117,284	117,284	0
Fund Balance at End of Year	\$3,127,801	\$3,248,470	\$120,669

(Continued)

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$49,175	\$49,175	\$0	\$361,949	\$361,949	\$0
1,078,321	1,100,660	22,339	52,204	52,204	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
12,505	12,505	0	0	0	0
205,253	206,275	1,022	0	0	0
0	0	0	0	0	0
<u>1,345,254</u>	<u>1,368,615</u>	<u>23,361</u>	<u>414,153</u>	<u>414,153</u>	<u>0</u>
807,880	783,897	23,983	0	0	0
257,190	257,190	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
75,203	75,203	0	0	0	0
128,420	128,419	1	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
60,607	60,607	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
72,113	72,113	0	0	0	0
0	0	0	0	0	0
0	0	0	170,000	170,000	0
0	0	0	205,315	205,315	0
<u>1,401,413</u>	<u>1,377,429</u>	<u>23,984</u>	<u>375,315</u>	<u>375,315</u>	<u>0</u>
<u>(56,159)</u>	<u>(8,814)</u>	<u>47,345</u>	<u>38,838</u>	<u>38,838</u>	<u>0</u>
80,000	80,000	0	80,230	80,230	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>80,000</u>	<u>80,000</u>	<u>0</u>	<u>80,230</u>	<u>80,230</u>	<u>0</u>
23,841	71,186	47,345	119,068	119,068	0
476,149	476,149	0	445,874	445,874	0
26,942	26,942	0	0	0	0
<u>\$526,932</u>	<u>\$574,277</u>	<u>\$47,345</u>	<u>\$564,942</u>	<u>\$564,942</u>	<u>\$0</u>

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)

	Capital Projects Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$0	\$0	\$0	\$2,467,647	\$2,467,647	\$0
Intergovernmental	12,860,109	12,860,109	0	21,842,479	21,864,818	22,339
Interest	668,541	673,143	4,602	760,405	768,683	8,278
Tuition and Fees	0	0	0	13,978	13,978	0
	0	0	0	300	300	0
Gifts and Donations	0	0	0	12,505	12,505	0
Extracurricular Activities	0	0	0	205,253	206,275	1,022
Miscellaneous	13,600	14,800	1,200	23,738	25,976	2,238
Total Revenues	13,542,250	13,548,052	5,802	25,326,305	25,360,182	33,877
<u>Expenditures:</u>						
Current:						
Instruction						
Regular	78,545	78,545	0	5,517,366	5,437,920	79,446
Special	0	0	0	1,362,253	1,361,753	500
Vocational	0	0	0	47,340	46,383	957
	0	0	0	7,000	6,717	283
Support Services:						
Pupils	0	0	0	433,490	412,712	20,778
Instructional Staff	9,762	9,762	0	421,389	416,577	4,812
Board of Education	0	0	0	153,980	153,759	221
Administration	0	0	0	789,270	766,549	22,721
Fiscal	0	0	0	367,890	363,715	4,175
	0	0	0	60,607	60,607	0
Operation and Maintenance of Plant	0	0	0	971,495	971,384	111
Pupil Transportation	0	0	0	563,101	560,323	2,778
Central	0	0	0	0	0	0
Extracurricular Activities	0	0	0	209,595	206,437	3,158
Capital Outlay	17,636,811	23,960,625	(6,323,814)	17,729,434	24,053,249	(6,323,815)
Debt Service						
Principal Retirement	0	0	0	170,000	170,000	0
Interest and Fiscal Charges	0	0	0	205,315	205,315	0
Total Expenditures	17,725,118	24,048,932	(6,323,814)	29,009,525	35,193,400	(6,183,875)
Excess of Revenues Over (Under) Expenditures	(4,182,868)	(10,500,880)	(6,318,012)	(3,683,220)	(9,833,218)	(6,149,998)
<u>Other Financing Sources (Uses):</u>						
Operating Transfers In	313,307	313,307	0	473,537	473,537	0
Advances In	0	0	0	20,000	20,000	0
Operating Transfers Out	0	0	0	(511,537)	(511,537)	0
Total Other Financing Sources (Uses)	313,307	313,307	0	(18,000)	(18,000)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,869,561)	(10,187,573)	(6,318,012)	(3,701,220)	(9,851,218)	(6,149,998)
Fund Balance at Beginning of Year	4,470,325	4,470,325	0	8,377,433	8,377,433	0
Prior Year Encumbrance Appropriated	8,973,227	8,973,227	0	9,117,453	9,117,453	0
Fund Balance at End of Year	\$9,573,991	\$3,255,979	(\$6,318,012)	\$13,793,666	\$7,643,668	(\$6,149,998)

See accompanying notes to the general purpose financial statements

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

	Proprietary Fund Type
	Enterprise
<u>Operating Revenues:</u>	
Sales	\$194,886
Total Operating Revenues	194,886
<u>Operating Expenses:</u>	
Salaries	154,600
Fringe Benefits	74,298
Purchased Services	1,558
Materials and Supplies	73,684
Cost of Sales	170,184
Depreciation	1,694
Total Operating Expenses	476,018
Operating Loss	(281,132)
<u>Non-Operating Revenues:</u>	
Federal Donated Commodities	78,257
Federal and State Subsidies	179,552
Total Non-Operating Revenues	257,809
Net Loss Before Operating Transfers	(23,323)
Operating Transfers In	38,000
Net Income	14,677
Retained Earnings at Beginning of Year	(217,804)
Retained Earnings at End of Year	(203,127)
Contributed Capital at Beginning and End of Year	204,592
Total Fund Equity at End of Year	\$1,465
See accompanying notes to the general purpose financial statements	

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	\$194,893	\$194,886	(\$7)
Federal and State Subsidies	196,117	196,117	0
Total Revenues	391,010	391,003	(7)
<u>Expenses:</u>			
Salaries	152,777	153,083	(306)
Fringe Benefits	73,668	73,516	152
Purchased Services	2,062	2,008	54
Materials and Supplies	188,589	187,525	1,064
Total Operating Expenses	417,096	416,132	964
Excess of Revenues Under Expenses	(26,086)	(25,129)	957
Transfers In	38,000	38,000	0
Advances Out	(20,000)	(20,000)	0
Excess of Revenues Under Expenses and Transfers	(8,086)	(7,129)	957
Fund Equity at Beginning of Year	14,611	14,611	0
Prior Year Encumbrances Appropriated	45	45	0
Fund Equity at End of Year	\$6,570	\$7,527	\$957

See accompanying notes to the general purpose financial statements

FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY, OHIO

Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

	Proprietary Fund Type
	Enterprise
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$194,886
Cash Payments to Suppliers for Goods and Services	(188,205)
Cash Payments for Employee Services and Benefits	(226,600)
Net Cash Used for Operating Activities	(219,919)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	196,117
Advances Out	(20,000)
Operating Transfers In	38,000
Net Cash Provided by Noncapital Financing Activities	214,117
Net Decrease in Cash and Cash Equivalents	(5,802)
Cash and Cash Equivalents at Beginning of Year	14,657
Cash and Cash Equivalents at End of Year	\$8,855
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	(\$281,132)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	1,694
Donated Commodities Used During Year	57,284
Changes in Assets and Liabilities:	
Increase in Inventory Held for Resale	(5)
Increase in Materials and Supplies Inventory	(58)
Increase in Prepaid Items	(956)
Increase in Accrued Wages and Benefits Payable	1,840
Increase in Compensated Absences	754
Increase in Intergovernmental Payable	660
Total Adjustments	2,235
Net Cash Used for Operating Activities	(\$219,919)

Noncash noncapital financing activities:
Fairland Local School District received \$78,257 in federal donated commodities

See accompanying notes to the general purpose financial statements

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's two instructional/support facilities staffed by 58 noncertified, 109 certificated full time teaching personnel and ten administrators who provide services to 1839 students.

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

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

The School District participates in four organizations, one of which is defined as jointly governed organizations and three as insurance purchasing pool. These organizations are presented in Note 9 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

Note 2 - Summary of Significant Accounting Policies

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

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

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

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

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

Debt Service Funds Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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

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

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

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

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

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

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

All proprietary funds and non-expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis is followed for the proprietary funds.

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received with sixty day of fiscal year end.

Non-exchange 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 fiscal year when use is first permitted, matching requirements, in which the School

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

Estimated Resources By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

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

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2002, investments were limited to repurchase agreements.

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 2002 amounted to \$95,540 which includes \$32,118 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of 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. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment and vehicles in the proprietary fund types is computed using the straight-line method over an estimated useful life of five to twenty years.

H. Short-term Interfund Assets/Liabilities

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed 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.

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees wage rates at fiscal year end, taking into consideration any limits specified in the school districts termination policy. The School District records a liability for accumulated unused sick leave for employees after 15 years of service.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid after sixty days are considered not to have been paid with current available financial resources. Bonds, notes, and capital leases are recognized as a liability of the general long-term obligations account group until due.

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

K. Interfund Transactions

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

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

L. Fund Balance Reserves

The School District reserves fund balance for amounts that are legally segregated for specific purpose or which are not available for appropriation. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventory, budget stabilization, school bus purchases and property taxes.

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

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

M. Contributed Capital

Contributed capital is recorded in proprietary funds that have received contributions from other funds, other governments and private sources prior to fiscal year 2002. When capital contributions are received, the receipt will be recorded as revenues and are reported as increases in retained earnings, based on new guidelines established by GASB Statement 33, "Accounting and Reporting for Nonexchange transactions."

N. Restricted Assets

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

O. Designation of Fund Balance

The School District has general fund balance designations of \$58,859 for budget stabilization.

P. 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.

Q. Total Columns on General Purpose Financial Statements

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

Note 3 - Accountability and Compliance

A. Accountability

The following funds had deficit fund balance/retained earnings at June 30, 2002:

	<u>Deficit Fund Balance/ Retained Earnings</u>
Special Revenue Funds:	
DPIA	\$99,337
Drug Free Schools	\$1,750
Title VI-R – Classroom Reduction	\$1,723
Enterprise Fund:	
Food Service	\$205,957

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

The deficits in the special revenue and food service enterprise funds were created by the application of generally accepted accounting principles. The general fund is liable for any deficit in the special revenue funds and provides operating transfers when cash is required, not when accruals occur.

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Fairland Local School District
Notes to the General Purpose Financial Statements
 June 30, 2002

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

Over (Under) Expenditures and Other Financing Uses
 All Governmental and Proprietary Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$360,561	\$83,520	\$120,957	(\$3,396,267)
Revenue Accruals	(4,924)	16,800	(1,889)	131,558
Prepaid Items	96,595	12,463	0	735
Advances In	20,000	0	0	0
Expenditure Accruals	(240,748)	(35,998)	0	1,098,454
Advances Out	0	0	0	0
Encumbrances	(85,383)	(5,599)	0	(8,022,053)
Budget Basis	<u>\$146,101</u>	<u>\$71,186</u>	<u>\$119,068</u>	<u>(\$10,187,573)</u>

	Enterprise
GAAP Basis	\$14,677
Revenue Accruals	(61,692)
Prepaid Items	4,530
Expense Accruals	54,990
Advance Out	(20,000)
Depreciation Expense	1,694
Encumbrances	(1,328)
Budget Basis	<u>(\$7,129)</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 the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the 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. Bond 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 and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash with Fiscal Agents At year end, the School District's building construction capital projects fund had \$561,036 in cash with escrow agents which is included on the balance sheet of the School District as "cash and cash equivalents with fiscal and escrow agents."

Fairland Local School District
Notes to the General Purpose Financial Statements
 June 30, 2002

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 \$(240,159) and the bank balance was \$51,190. The entire amount of the bank balance was covered by federal deposit insurance.

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

	Category	Fair
	3	Value
Repurchase Agreements	\$16,022,656	\$16,022,656

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$15,782,603	\$0
Repurchase Agreements	(\$16,022,656)	\$16,022,656
Cash on Hand	(106)	0
GASB Statement 3	<u>(\$240,159)</u>	<u>\$16,022,656</u>

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 located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2002.

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

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

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

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

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second Half Collections		2002 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$99,024,210	91%	\$99,455,250	85%
Public Utility Personal	5,887,570	6%	8,485,720	7%
Tangible Personal Property	3,482,160	3%	9,022,160	8%
Total	\$108,393,940	100%	\$116,963,130	100%
Tax rate per \$1000 of assessed valuation	\$24.02		\$24.02	

The School District receives property taxes from Lawrence County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$47,537 and is recognized as revenue. \$39,639 was available to the General Fund, \$6,976 was available to the Debt Service Fund, and \$922 was available to the Classroom Facilities Special Revenue Fund.

Note 7 - Receivables

Receivables at June 30, 2002, consisted of taxes, interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Special Revenue Funds:	
Eisenhower Grant	\$1,187
Title VI-B Grant	2,894
Title I Grant	41,416
Title VI Grant	6,843
Drug Free Schools	3,062
Title VI-R Grant	6,213
Total Intergovernmental Revenues	\$61,615

Note 8 - Fixed Assets

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Machinery and Equipment	\$205,672
Less: Accumulated Depreciation	(187,231)
Net Fixed Assets	\$18,441

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	Balance 6/30/01	Additions	Deductions	Balance 6/30/02
Land and Improvements	\$198,591	\$0	\$0	\$198,591
Buildings and Improvements	5,173,930	2,820	0	5,176,750
Furniture, fixtures and Equipment	2,980,163	96,182	4,053	3,072,292
Vehicles	965,698	51,783	197,658	819,823
Textbooks	378,716	133,266	118,700	393,282
Construction in Progress	9,464,979	18,168,057	0	27,633,036
Total General Fixed Assets	\$19,162,077	\$18,452,108	\$320,411	\$37,293,774

Note 9 - Jointly Governed Organizations and Insurance Purchasing Pools

A. Jointly Governed Organizations

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. Fairland Local School District paid \$3,678 for services provided during fiscal year 2002. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and received direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross CTC, Shawnee State University, and Pike, Ross, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Fairland Local School District's superintendent is not currently on the SERRC Board. The fiscal agent for the SERRC is Dawson-Bryant LSD. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45663.

B. Insurance Purchasing Pools

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

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool (Note 10). The intent of the consortium is to achieve the benefit of a reduced health insurance premium for the School District by virtue of its grouping and representation with other participants in the consortium. Each participant pays its health insurance premium to the insurance provider. Participation in the consortium is limited to school districts that can meet the criteria outlined in the consortium's operating articles. The firm of Cross and Associates provides administrative services to the consortium.

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

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the School District contracted with Nationwide Insurance Company for property insurance and boiler and machinery coverage in the amount of \$34,848,000. The policies include a \$1,000 deductible.

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays an annual premium to the OSP.

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

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	\$3,000,000
Products - Completed Operations Aggregate Limit	\$1,000,000
Personal and Advertising injury Limit - Each Offense	\$1,000,000
Fire Damage Limit - Any One Event	\$500,000
Excess Liability:	
Each Occurrence	\$2,000,000
Aggregate Limit	\$2,000,000
Employer's Liability:	
Each Occurrence	\$1,000,000
Disease - Each Employee	\$1,000,000

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). 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 of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund the 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, 2002, 2001, and 2000 were \$87,686, \$196,128, and \$179,190, respectively; 53.11 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$41,109 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$402,726, \$700,476, and \$634,320, respectively; 80.14 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$79,963 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$190,765 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3,256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$153,675.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees, and administrators who are contracted to work 260 days per year, earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers, administrators, and classified employees who are contracted to work less than 260 days per year do not earn vacation time.

Teachers and administrators earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 305 days. Upon retirement, certificated employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 55 days.

Classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may accumulate up to 250 days. Upon retirement, classified employees receive payment for one-fourth of the total sick leave accumulation to a maximum of 50 days.

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

B. Life Insurance and Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Coresource Inc., in the amount of \$25,000 for administrators and certificated employees and \$20,000 for classified employees.

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

Health insurance is provided by Medical Mutual of Ohio. Premiums for this coverage are \$986.88 for family coverage and \$399.94 for single coverage. The School District pays 85% of premiums while the employee contributes 15%.

Vision insurance is provided by VisionPlus of America Inc. Premiums for this coverage are \$25.93 monthly for family coverage and 10.59 monthly for single coverage. Employees contribute \$15.34 monthly for family coverage. Employee coverage is 100% board paid.

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2002 were as follows:

	Principal Outstanding			Principal Outstanding
	6/30/2001	Additions	Deductions	6/30/2002
Energy Conservation Bonds, 1996 5.95%	\$340,000	\$0	\$60,000	\$280,000
OSFC Bonds, 1999 5.02%	3,795,000	0	110,000	3,685,000
Compensated Absences	613,182	78,701	53,547	638,336
Intergovernmental Payable	85,365	86,799	85,365	86,799
Total General Long-Term Obligations	\$4,833,547	\$165,500	\$308,912	\$4,690,135

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

Energy Conservation Bonds - On December 1, 1996, Fairland Local School District issued \$600,000 in unvoted bonds for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2006. The Energy Conservation Bonds will be paid from the debt service fund.

School Improvement General Obligation Bonds - On June 8, 1999 the Fairland Local School District issued \$4,005,000 in voted general obligation bonds for the purpose of constructing a new elementary school and renovation of the high school. The bonds were issued for a 23 year period with final maturity at December 1, 2021. The School Improvement General Obligation Bonds will be paid from the debt service fund.

Fairland Local School District
Notes to the General Purpose Financial Statements
 June 30, 2002

Annual requirements to retire general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2003	\$115,000	\$180,780	\$295,780
2004	120,000	176,138	296,138
2005	125,000	171,175	296,175
2006	130,000	165,883	295,883
2007	135,000	160,250	295,250
2008-2012	770,000	702,856	1,472,856
2013-2017	1,000,000	461,250	1,461,250
2018-2021	1,290,000	167,500	1,457,500
Total	\$3,685,000	\$2,185,832	\$5,870,832

Annual requirements to retire energy conservation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2003	\$65,000	\$16,660	\$81,660
2004	70,000	12,793	82,793
2005	70,000	8,627	78,627
2006	75,000	4,463	79,463
Total	\$280,000	\$42,543	\$322,543

The School District's overall legal debt margin was \$6,561,682, with an unvoted debt margin of \$116,963 at June 30, 2002.

Note 15 – Contractual Commitments

As of June 30, 2002, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining On Contract</u>
BBL Maescher	Construction Manager	\$127,726
Tanner, Stone and Company	Professional Design Services	\$298,763
Crace Construction	High School General Trades Construction	\$ 96,368
Dixon Electrical Systems	High School Electrical Work	\$ 55,493
Rick Eplion Paving	High School Paving	\$ 21,192
General Heating and Air Conditioning	HVAC Work	\$ 48,708

Fairland Local School District
Notes to the General Purpose Financial Statements
June 30, 2002

J & H Reinforcing	Steel Structural Work	\$ 19,824
Metro Masonry, Inc.	High School Masonry Work	\$150,132
L.R. Polster Co.	Food Service Equipment	\$ 44,067
Powell, Inc.	Energy Management System	\$258,314
Davis and Burton Contractors	High School Site Preparation	\$ 33,220
Ferguson Brothers	Plumbing	\$ 44,756
Tech Valley Contracting	Roofing	\$ 14,611
B & L Contractors Inc	East Addition General Trades	\$ 13,672
Blacktop Industries	East Elementary Paving	\$ 2,345
McDaniel Electric	East Electrical Work	\$ 13,707
B & L Contractors Inc	East Renovations General Trades	\$658,363
Brewer & Co.	Fire Protection – East	\$ 71,150
CIMCO Inc	Plumbing – East	\$ 65,241
Dixon Electric	Electric – East Ren	\$288,800
Mechanical Construction	HVAC – East Ren	\$263,749
Brewer & Co.	Fire Protection – W/M	\$ 59,226
CIMCO Inc	Plumbing – W/M	\$ 229,397
Dixon Electric	Electric – West	\$ 209,400
General Heating & Air	HVAC – W/M	\$1,154,854
James Electric	Electric – Middle	\$ 489,895
RWS Builders	General Trades – W/M	\$2,880,585
Farnham Equipment Co.	Loose Equipment	\$ 2,470
Central Insulation System Inc.	Asbestos Abatement	\$ 8,615

Fairland Local School District
Notes to the General Purpose Financial Statements
 June 30, 2002

School Specialty Inc.	Loose Equipment	\$ 111,277
Ed Tech Services	Data Voice & Sound	\$ 64,256
Professional Products Inc	Technology Equipment	\$ 245,625

Note 16 - Segment Information for Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$163,963	\$30,923	\$194,886
Depreciation	\$1,694	\$0	\$1,694
Operating Loss	(\$265,227)	(\$15,905)	(\$281,132)
Donated Commodities	\$78,257	\$0	\$78,257
Operating Grants	\$179,552	\$0	\$179,552
Operating Transfers In	\$20,000	\$18,000	\$38,000
Net Income	\$12,582	\$2,095	\$14,677
Net Working Capital	(\$4,656)	\$2,830	(\$1,826)
Total Assets	\$51,651	\$2,830	\$54,481
Long-Term Compensated Absences Payable	\$15,150	\$0	\$15,150
Total Equity (Deficit)	(\$1,365)	\$2,830	\$1,465
Encumbrances, June 30, 2002	\$800	\$528	\$1,328

Note 17 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

The School District is not a party to legal proceedings.

Fairland Local School District
Notes to the General Purpose Financial Statements
 June 30, 2002

Note 18 - Set-Aside Calculations and Fund Reserves

The Fairland Local 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. These amounts must be carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The School District also receives resources from the State of Ohio which are restricted by state law for the purchase of school buses. The balance of this allocation is also reflected as a reservation of fund balance in the general fund at fiscal year end.

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

	Budget		Capital
	<u>Stabilization</u>	<u>Textbooks</u>	<u>Acquisition</u>
Set-aside Reserve Balance as of June 30, 2001	\$43,460	\$0	\$30,479
Current Year Set-aside Requirement	0	199,279	199,279
Offsets	0	0	(56,297)
Qualifying Disbursements	0	(199,279)	(173,461)
Totals	<u>\$43,460</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$43,460</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$43,460</u>	<u>\$0</u>	<u>\$0</u>

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amount below zero. The extra amount in the capital improvements set-aside may be used to reduce the set-aside requirement of future years. The School District designated \$58,859 budget stabilization.

Note 19 - School Funding Court Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS, RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

Federal Grantor Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$63,894		\$57,284
National School Breakfast Program	047936-05PU	10.553	33,220		33,220	
National School Lunch Program	047936-LLP1/LLP4	10.555	150,036		150,036	
Total United States Department of Agriculture - Nutrition Cluster			<u>183,256</u>	<u>63,894</u>	<u>183,256</u>	<u>57,284</u>
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I	C1S1	84.010	330,658		306,073	
Special Education Grants to States	6BSF	84.027	140,105		118,179	
Safe and Drug-Free Schools	DRS1	84.186	4,252		2,152	
Continuous Improvement Plan	G2S2	84.276			358	
Eisenhower Professional Development	MSS1	84.281	11,644		10,628	
Innovative Educational Program	C2S1	84.298	2,795		4,956	
Literacy Challenge Grant	TF43	84.318			14,501	
Classroom Reduction Funds	CRS1	84.340	60,983		63,739	
Tech Prep Grant	08F	84.353			644	
Total United States Department of Education:			<u>550,437</u>	<u>0</u>	<u>521,230</u>	<u>0</u>
TOTAL FEDERAL AWARDS, RECEIPTS AND EXPENDITURES			<u>\$733,693</u>	<u>\$63,894</u>	<u>\$704,486</u>	<u>\$57,284</u>

The notes to the Schedule of Federal Awards, Receipts and Expenditures are an integral part of this Schedule.

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the United States Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with the State grants. It is assumed federal monies are expended first. At June 30, 2002, the School District had \$20,974 in inventory.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Fairland Local School District, Lawrence County, Ohio (the School District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 30, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated December 30, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

Jim Petro
Auditor of State

December 30, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Frontier Local School District
Washington County
Route 3, Box 134
New Matamoras, Ohio 45767-9756

To the Board of Education:

Compliance

We have audited the compliance of Frontier Local School District, Washington County, Ohio, (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 30, 2002

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

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

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**FAIRLAND LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10744-001	A reportable condition was issued for the Business Club not issuing duplicate receipts and maintaining documentation to support amounts paid into the Treasurer's Office.	Yes	
2001-10744-002	A reportable condition was issued for the Business Club Advisor writing a personal check to pay for an invoice and then deducting the money from candy bar sales as it was received in order to be reimbursed.	Yes	
2001-10744-003	A reportable condition was issued for the Business Club Advisor receiving a \$500 stipend from a travel vendor and not paying the amount into the School District.	Yes	



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FAIRLAND LOCAL SCHOOL DISTRICT

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2003**