



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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**STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

Fairlawn Local School District  
Shelby County  
18800 Johnston Road  
Sidney, Ohio 45365

To the Members of the Board:

We have audited the accompanying general-purpose financial statements of the Fairlawn Local School District, Shelby County, (the District) as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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 Fairlawn Local School District, Shelby County, as of June 30, 2002 and 2001, and the results of its operations and the cash flows of its Enterprise Fund for the years 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 November 20, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures, for the year ended June 30, 2002, 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 also not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it 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".

**Jim Petro**  
Auditor of State

November 20, 2002

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2002**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$844,795	\$91,128	\$225,690	\$156,507
Cash with Fiscal and Escrow Agents		2,382	37,851	
Receivables:				
Taxes	904,305			
Accounts	3,241			
Intergovernmental		10,617		
Accrued Interest	545			
Materials and Supplies Inventory	9,477			
Inventory Held for Resale				
Restricted Assets:				
Cash	53,631			
Fixed Assets, (Net where applicable of Accumulated Depreciation)				
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets	<u>1,815,994</u>	<u>104,127</u>	<u>263,541</u>	<u>156,507</u>
<b>Liabilities, Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	9,672	4,462		
Accrued Wages and Benefits	232,574	3,094		
Compensated Absences Payable				
Intergovernmental Payable	51,734	435		
Deferred Revenue	789,451			
Due to Students				
Matured Bonds Payable			35,000	
Matured Interest Payable			2,851	
General Obligation Bonds Payable				
Total Liabilities	<u>1,083,431</u>	<u>7,991</u>	<u>37,851</u>	
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved for Encumbrances	33,414	27,566		11,440
Reserved for Inventory	9,477			
Reserved for Budget Stabilization	9,720			
Reserved for Taxes	32,790			
Reserved for Bus Purchase	36,346			
Reserved for Capital Improvement	7,565			
Unreserved:				
Undesignated	603,251	68,570	225,690	145,067
Total Fund Equity and Other Credits	<u>732,563</u>	<u>96,136</u>	<u>225,690</u>	<u>156,507</u>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<u><b>\$1,815,994</b></u>	<u><b>\$104,127</b></u>	<u><b>\$263,541</b></u>	<u><b>\$156,507</b></u>

See Accompanying Notes to the General Purpose Financial Statements.



Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$34,295	\$39,340			\$1,391,755
				40,233
				904,305
	997			4,238
				10,617
				545
159				9,636
3,289				3,289
				53,631
1,856		\$3,440,640		3,442,496
			\$225,690	225,690
			153,541	153,541
<u>39,599</u>	<u>40,337</u>	<u>3,440,640</u>	<u>379,231</u>	<u>6,239,976</u>
56	223			14,413
3,312				238,980
2,991			178,601	181,592
3,992			35,630	91,791
				789,451
	39,030			39,030
				35,000
				2,851
			165,000	165,000
<u>10,351</u>	<u>39,253</u>		<u>379,231</u>	<u>1,558,108</u>
		3,440,640		3,440,640
29,248				29,248
	500			72,920
				9,477
				9,720
				32,790
				36,346
				7,565
	584			1,043,162
<u>29,248</u>	<u>1,084</u>	<u>3,440,640</u>		<u>4,681,868</u>
<u>\$39,599</u>	<u>\$40,337</u>	<u>\$3,440,640</u>	<u>\$379,231</u>	<u>\$6,239,976</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	<b>Total (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>	
<b>Revenue:</b>						
Property Taxes	\$800,219		\$13,806			\$814,025
Income Taxes	254,231					254,231
Intergovernmental	1,678,461	\$356,726	5,103	\$15,200		2,055,490
Interest	37,722					37,722
Tuition and Fees	490,961					490,961
Rent	160					160
Extracurricular Activities		51,809				51,809
Gifts & Donation	10,000	13,965			\$500	24,465
Miscellaneous	156,310		67			156,377
<b>Total Revenues</b>	<b>3,428,064</b>	<b>422,500</b>	<b>18,976</b>	<b>15,200</b>	<b>500</b>	<b>3,885,240</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	1,468,059	292,384		9,256		1,769,699
Special	184,831	62,893				247,724
Vocational		1,797				1,797
Adult/Continuing	9,119					9,119
Other	9,764					9,764
Support Services:						
Pupils	129,496	22,385				151,881
Instructional Staff	211,445	40,545				251,990
Board of Education	8,328				500	8,828
Administration	385,787					385,787
Fiscal	126,884	923				127,807
Operation and Maintenance of Plant	291,521	100				291,621
Pupil Transportation	288,612			353		288,965
Business	5,199					5,199
Operation of Non-Instructional Services						
Extracurricular Activities	77,371	28,924				106,295
Debt Service:						
Principal Retirement	6,700		40,000			46,700
Interest and Fiscal Charges	399		17,508			17,907
<b>Total Expenditures</b>	<b>3,203,515</b>	<b>449,951</b>	<b>57,508</b>	<b>9,609</b>	<b>500</b>	<b>3,721,083</b>
Excess of Revenues Over (Under) Expenditures	224,549	(27,451)	(38,532)	5,591		164,157
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	400					400
Transfer - In				140,000		140,000
Transfer - Out	(140,000)					(140,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(139,600)</b>			<b>140,000</b>		<b>400</b>
Excess of Revenues and Other Financing Sources Over/Under Expenditures and Other Financing Uses	84,949	(27,451)	(38,532)	145,591		164,557
Fund Balances at Beginning of Year	647,614	123,587	264,222	10,916	1,084	1,047,423
<b>Fund Balances at End of Year</b>	<b>\$732,563</b>	<b>\$96,136</b>	<b>\$225,690</b>	<b>\$156,507</b>	<b>\$1,084</b>	<b>\$1,211,980</b>

See Accompanying Notes to the General Purpose Financial Statements

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Property Taxes	\$800,000	\$805,414	\$5,414			
Income Taxes	255,000	259,820	4,820			
Intergovernmental	1,566,433	1,683,261	116,828	\$321,313	\$311,224	(\$10,089)
Interest	45,000	45,140	140			
Tuition and Fees	290,000	491,664	201,664			
Rent		160	160			
Extracurricular Activities				44,000	52,424	8,424
Gifts & Donations		10,000	10,000	6,000	13,965	7,965
Miscellaneous	100,000	158,329	58,329			
<b>Total Revenues</b>	<b>3,056,433</b>	<b>3,453,788</b>	<b>397,355</b>	<b>371,313</b>	<b>377,613</b>	<b>6,300</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	1,504,054	1,465,197	38,857	333,903	314,575	19,328
Special	192,150	188,209	3,941	46,930	39,938	6,992
Vocational				1,797	1,797	
Adult/Continuing	9,000	8,841	159			
Other	11,170	10,254	916			
Support Services:						
Pupils	141,163	136,154	5,009	24,400	21,253	3,147
Instructional Staff	228,670	208,337	20,333	40,386	29,281	11,105
Board of Education	9,808	8,358	1,450			
Administration	388,742	385,888	2,854			
Fiscal	139,500	128,318	11,182	1,778	923	855
Operation and Maintenance of Plant	357,310	319,112	38,198	100	100	
Pupil Transportation	293,408	292,351	1,057			
Business	8,150	5,567	2,583			
Non-Instructional Services						
Extracurricular Activities	89,710	77,801	11,909	34,036	32,420	1,616
Debt Service:						
Principal Retirement	6,700	6,700				
Interest and Fiscal Charges	800	399	401			
<b>Total Expenditures</b>	<b>3,380,335</b>	<b>3,241,486</b>	<b>138,849</b>	<b>483,330</b>	<b>440,287</b>	<b>43,043</b>
Excess of Revenues Over (Under) Expenditures	(323,902)	212,302	536,204	(112,017)	(62,674)	49,343
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets		400	400			
Transfers-In						
Transfer-Out		(140,000)	(140,000)			
<b>Total Other Financing Sources (Uses)</b>		<b>(139,600)</b>	<b>(139,600)</b>			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(323,902)	72,702	396,604	(112,017)	(62,674)	49,343
Fund Balances at Beginning of Year	761,968	761,968		121,068	121,068	
Prior Year Encumbrances Appropriated	24,743	24,743		653	653	
<b>Fund Balances at End of Year</b>	<b>\$462,809</b>	<b>\$859,413</b>	<b>\$396,604</b>	<b>\$9,704</b>	<b>\$59,047</b>	<b>\$49,343</b>

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service			Capital Project			Expendable Trust		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$15,000	\$15,349	\$349						
2,887	5,103	2,216	\$14,444	\$15,200	\$756			
							\$500	\$500
17,887	20,452	2,565	14,444	15,200	756		500	500
			23,700	20,696	3,004			
						\$1,000	1,000	
500		500	1,500	353	1,147			
40,000	40,000							
18,000	17,575	425						
58,500	57,575	925	25,200	21,049	4,151	1,000	1,000	
(40,613)	(37,123)	3,490	(10,756)	(5,849)	4,907	(1,000)	(500)	500
				140,000	140,000			
				140,000	140,000			
(40,613)	(37,123)	3,490	(10,756)	134,151	144,907	(1,000)	(500)	500
262,679	262,679		9,415	9,415		1,084	1,084	
			1,500	1,500				
<b>\$222,066</b>	<b>\$225,556</b>	<b>\$3,490</b>	<b>\$159</b>	<b>\$145,066</b>	<b>\$144,907</b>	<b>\$84</b>	<b>\$584</b>	<b>\$500</b>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>Enterprise</b>
<b>Operating Revenue:</b>	
Sales	\$80,158
Total Operating Revenue	80,158
<b>Operating Expenses:</b>	
Salaries & Wages	21,935
Fringe Benefits	10,229
Purchased Services	48,126
Cost of Sales	39,366
Depreciation	164
Total Operating Expenses	119,820
Operating Income/(Loss)	(39,662)
<b>Non-Operating Revenues/Expenses</b>	
Intergovernmental Revenue	32,135
Federal Donated Commodities	14,943
Interest	789
Total Non-Operating Revenue/Expenses	47,867
Net Income	8,205
Retained Earnings at Beginning of Year	21,043
<b>Retained Earnings at End of Year</b>	<b>\$29,248</b>

*See Accompanying Notes to the General Purpose Financial Statements.*

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Increase (Decrease) in Cash and Cash Equivalents:**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$80,158
Cash Payments for Employee Services and Benefits	(30,885)
Cash Payments to Suppliers For Goods and Services	(73,215)
Net Cash Used In Operating Activities	<u>(23,942)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Subsidies	32,135
Net Cash Provided By Noncapital Financing Activities	<u>32,135</u>

**Cash Flows from Investing Activities:**

Interest	789
Net Cash Provided By Investing Activities	<u>789</u>

Net Increase (Decrease) in Cash and Cash Equivalents 8,982

Cash and Cash Equivalents Beginning of Year 25,313

Cash and Cash Equivalents End of Year 34,295

**Reconciliation of Operating Loss to Net  
Cash Used In Operating Activities:**

Operating Loss (39,662)

**Adjustments to Reconcile Operating Loss to  
Net Cash Used In Operating Activities:**

Depreciation	164
Donated Commodities Received	14,943
Changes in Assets and Liabilities:	
(Increase)/Decrease in Materials & Supplies Inventory	(4)
(Increase)/Decrease in Inventory Held for Resale	(706)
Increase/(Decrease) in Accounts Payable	44
Increase/(Decrease) in Accrued Salaries & Benefits Payable	(60)
Increase/(Decrease) in Intergovernmental Payable	169
Increase/(Decrease) in Compensated Absences Payable	1,170
<b>Net Cash Used In Operating Activities</b>	<u><u>\$ (23,942)</u></u>

*See Accompanying Notes to the General Purpose Financial Statements.*

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

Fairlawn Local School District (the "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 District operates under a locally elected Board form of government and provides educational services as authorized by State and/or federal agencies. This Board controls the District's two instructional/support facilities staffed by 31 non-certificated employees, 38 certificated full time teaching personnel and 3 administrative employees to provide services to 535 students and other community members

The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 602nd largest in the State of Ohio (among 612 school districts) in terms of enrollment.

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), Shelby County Local and Professional Development Committee, West Central Ohio Special Education Resource Center, jointly governed organizations. The District is also associated with the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan, The Ohio School Risk Sharing Authority, and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 14 and 15 to the general-purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting**

The District uses funds and account groups to report on 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 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 not recorded in the funds because they do not directly affect net available expendable resources.

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

**1. Governmental Fund Types:**

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

**General Fund**

The general fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the 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 major capital projects or expendable trusts) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund**

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**Capital Projects Funds**

The 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 enterprise funds or trust funds).

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Proprietary Fund Type:**

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

**Enterprise Fund**

The enterprise fund is 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.

**3. Fiduciary Fund Types**

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

**4. Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities 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 District, other than those accounted for in the proprietary or trust funds.

**General Long-Term Obligations Account Group**

This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary or trust 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The proprietary fund is 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. Operating statement presents increases (i.e., revenues) and decreases (i.e., 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 of accounting is followed for the proprietary fund types.

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 the modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the District is sixty days after fiscal year end.

Non exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: Property taxes available as an advance, taxpayer-assessed income taxes, interest, grants and student fees.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and 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 the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue.

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

On the accrual basis of accounting expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as Federal Donated Commodities revenue on the operating statement.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process**

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 appropriations 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 special revenue funds grant activity that is administered by a fiscal agent is not budgeted by the District. The legal level of budgetary control is at the fund/function level of General and Debt Service Funds and at the fund level for all other funds. 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.

**1. 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 Shelby County Budget Commission for rate determination.

**2. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the 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 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 District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

**3. 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 must be legally enacted by the Board of Education at the fund/function level of expenditures for the general and debt service funds and at the fund level for all other funds, which are the legal levels 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 District.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the general or debt service funds, must be approved by the Board of Education.

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. 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, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**4. 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. 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 the enterprise fund.

**5. 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, all cash received by the District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The balance of various grant activity administered by another governmental agency, and held with the fiscal agent outside the District Treasury, is presented on the balance sheet as "cash with fiscal agent," and represents deposits.

During fiscal year 2002, investments were limited to repurchase agreements and certificates of deposit.

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 \$37,722, which includes \$12,638 assigned from other District funds. In addition, the enterprise fund received \$789 in interest.

For purposes of the 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 the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Inventory**

Inventories of governmental funds are stated at cost while inventories of the enterprise fund 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 costs of inventory items are recorded as 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 expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food, and purchased non-foods and are expensed when used.

**F. 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 amounts required by statute to be set aside by the District for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 17 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**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 the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the 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 District maintains a capitalization threshold of three hundred dollars.

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 in the enterprise fund is computed using the straight-line method over an estimated useful life of 5 to 20 years. Improvements to fund fixed assets are capitalized and depreciated over the remaining useful lives of the related fixed assets.

**H. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District currently participates in several State and Federal programs, categorized as follows:

**Entitlements**

**General Fund**

State Foundation Program  
State Property Tax Relief  
School Bus Purchase Allowance

**Non-Reimbursable Grants**

**Special Revenue Funds**

Education Management Information Systems  
Title VI-B  
Title I  
Title VI  
School Net Professional Development  
Eisenhower Grant Title II  
Pre-School Grant  
Drug Free Grant Title IV  
Title VI-R  
School Improvement Incentive  
Network Connectivity  
SchoolNet Praise Grant  
Summer School  
Ohio Reads Grant  
Continuous Improvement Grant  
One Net Grant  
Raising the Bar Grant  
Assistive Technology Infusion Grant

**Capital Projects**

School Net Plus  
Technology Grant

**Reimbursable Grants**

**Special Revenue Fund**

Telecommunications Act Grant

**Proprietary Funds**

National School Lunch Program  
Government Donated Commodities

Grants and entitlements received in governmental funds amounted to approximately 52.8 percent of the District's governmental fund revenue during the 2002 fiscal year.

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The District records a liability for accumulated unused sick leave for employees after ten years of current service with the District. The full amount of the governmental compensated absences will be recorded in the general long-term obligation account group. These amounts are recorded in the account "compensated absences payable". In the enterprise fund, 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 and pension obligations 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 available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available resources. Bonds are reported as a liability of the general long-term debt account group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the appropriate 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 District records reservations for portions of fund equity which are legally segregated for specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and material, budget stabilization, capital improvements, 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 appropriations under State statute. The reserve for budget stabilization represents the District's portion of Bureau of Worker's Compensation refunds.

**M. Estimates**

The preparation of the 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 could differ from those estimates.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Total Columns on General-Purpose Financial Statements**

Total columns on the general-purpose financial statements are captioned "Total - (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. Inter-fund eliminations have not been made in the aggregation of this data.

**3. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/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 (Non-GAAP Basis) and Actual-All Governmental Fund Types and Expendable Trust Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/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 disclosure in the enterprise fund (GAAP basis).
4. The District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent are included in the special revenue funds for GAAP reporting purposes.

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

**Excess of Revenues and Other Financing Sources  
Over(Under) Expenditures and Other Financing Uses  
Governmental and Expendable Trust Funds**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>
GAAP Basis	\$84,949	(\$27,451)	(\$38,532)	\$145,591	
Revenue Accruals	25,724	(10,001)	1,476		
Expenditure Accruals	817	2,764	(67)		
Non-Budgeted Funds		4,092			
Encumbrances Out- Standing At Year-end	<u>(38,788)</u>	<u>(32,078)</u>	<u>          </u>	<u>(11,440)</u>	<u>(\$500)</u>
Budget Basis	<u>\$72,702</u>	<u>(\$62,674)</u>	<u>(\$37,123)</u>	<u>\$134,151</u>	<u>(\$500)</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board 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 or deposit accounts including passbook accounts.

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 or interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in the division (1) OR (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

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

Cash on hand: At fiscal year end, the District had \$1,600 in undeposited cash on hand, which is included on the Combined Balance Sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$40,233 shown in the special revenue funds is maintained with the Shelby County Educational Service Center and Bank One. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*".

**Deposits:** At fiscal year end, the carrying amount of the District's deposits was \$980,403 and the bank balance was \$1,080,694. Of the bank balance (*includes bank safe amount*), \$201,663 was covered by federal depository insurance; and \$879,031 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School held to a successful claim by the FDIC.

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

	<b>Category 3</b>	<b>Carrying/Market Value</b>
Repurchase Agreement(SWEEP)	\$463,383	\$463,383

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.

**5. PROPERTY TAXES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. PROPERTY TAXES – (Continued)**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the 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) is for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, 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. Public utility tangible personal property currently is assessed at varying percentage 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, 2001 and are collected in 2002 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 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

	<b>2001 Second- Half Collections</b>		<b>2002 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$27,574,980	78%	\$28,010,630	85%
Public Utility	7,257,880	20	4,540,780	14
Tangible Personal Property	506,090	2	493,180	1
<b>Total Assessed Value</b>	<b>\$35,338,950</b>	<b>100%</b>	<b>\$33,044,590</b>	<b>100%</b>
Tax rate per \$1,000 of Assessed valuation	\$31.6		\$29.2	

Manufactured Home Tax, commonly referred to as House Trailer Tax, is based on the purchase price obtained from the title: (1) ninety-five percent unfurnished or (2) eighty percent furnished with a five percent drop each year.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became available as of June 30, 2002. Although total property tax allocations for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended and 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 \$32,790 in the general fund.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. INCOME TAX**

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**7. RECEIVABLES**

Receivables at June 30, 2002, consisted of property and income taxes, accounts (billings for user charged services and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**8. FIXED ASSETS**

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

Furniture and Equipment	\$ 41,535
Less Accumulated Depreciation	<u>(39,679)</u>
Net Fixed Assets	<u><u>\$ 1,856</u></u>

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

<u>Asset Category</u>	<u>Balance at 06/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/02</u>
Land and Improvements	\$222,825	\$5,570	\$5,239	\$223,156
Buildings and Improvements	1,488,059	-	-	1,488,059
Furniture, Fixtures and Equipment	866,273	218,547	16,460	1,068,360
Vehicles	533,390	55,567	39,619	549,338
Infrastructure	111,727	-	-	111,727
Totals	<u><u>\$3,222,274</u></u>	<u><u>\$279,684</u></u>	<u><u>\$61,318</u></u>	<u><u>\$3,440,640</u></u>

**9. RISK MANAGEMENT**

**A. Property and Liability**

The 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. During fiscal year 2002, the District contracted with Selective Insurance Company through Marsh Insurance Agency for property and fleet insurance, and inland marine coverage. The District contracted with the Ohio School Plan (Hart RE., Company) through Harcum Insurance Agency for liability insurance.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**9. RISK MANAGEMENT – (Continued)**

Coverage provided by Selective Insurance Company is as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$10,000,000
Inland Marine Coverage (\$100 deductible)	included
Boiler and Machinery (\$500 deductible)	included
Crime Insurance	5,000
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000

The District participates in the Ohio School Risk Sharing Authority (the Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant. (See Note 15)

Coverage provided by the pool through Hart Re Insurance Company is as follows:

General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000

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

**B. Medical, Dental and Life Insurance Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 15) consisting of seven school districts and an educational service center. The District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Medical Life for life insurance benefits.

**C. Worker's Compensation**

For fiscal year 2002, the District participated in the Southwestern Ohio Educational Purchasing Cooperative, Workers' Compensation Group Grating Program, an insurance purchasing pool (Note 15). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan.

Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent. For fiscal year 2002, 5.46 percent was the portion to fund pension obligations, increased from 4.2 percent for fiscal year 2001. The contribution requirements of plan members and employers are established and may be amended, up to statutory requirements, by the SERS's Retirement Board. The District's contributions to SERS for the fiscal years ending June 30, 2002, 2001, and 2000 were \$21,944, \$22,605 and \$21,866, respectively; 42.58 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$42,000 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term debt account group.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions to STRS for the fiscal years ending June 30, 2002, 2001, and 2000 were \$149,005, \$141,216 and \$84,146, respectively; 84.34 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$34,384 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

**11. POSTEMPLOYMENT BENEFITS**

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. POSTEMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$70,581 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (latest information available). 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, 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. For this fiscal year June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 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 \$315.70 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$53,812 during the 2002 fiscal year.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment up to six weeks. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for certified personnel and unlimited days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for certified employees and the entire balance for classified employees.

**B. Health Care Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life. The District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is provided by the District to most employees through Anthem.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**13. LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2002 were as follows:

	<b>Outstanding 6/30/2001</b>	<b>Additions</b>	<b>Deductions</b>	<b>Outstanding 6/30/2002</b>
School Improvement Bonds-1983 9.5%	\$ 205,000	\$ -	\$ 40,000	\$ 165,000
Energy Conservation Loan-1991 5.95%	6,700	-	6,700	-
Total Long-term Debt	211,700	-	46,700	165,000
Intergovernmental Payable	36,889	35,630	36,889	35,630
Compensated Absences	162,322	20,565	4,286	178,601
Total Long-term Obligations	<u>\$ 410,911</u>	<u>\$ 56,195</u>	<u>\$ 87,875</u>	<u>\$ 379,231</u>

**Fairlawn Local School Improvement Bonds**

On April 1, 1983, The District issued \$900,000 in voted general obligation bonds for the purpose of a school improvement to the high school building. The bonds were issued for a twenty-two year period with final maturity at December 1, 2005. This bond will be paid from tax revenue in the debt service fund.

**Energy Conservation Loan**

On October 10, 1991, The District entered into a \$67,000 unvoted general obligation note for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Sections 3313.372 and 3313.373. The note was issued for a ten year period with final maturity during fiscal year 2002. The debt was retired from savings generated from the energy conservation improvements.

**Intergovernmental Payable** - Intergovernmental payable consists of SERS and SERS surcharge liabilities and Worker Compensation that will not be paid with current available expendable financial resources, and will be paid from the fund from which the employees' salaries are paid.

**Compensated Absences** - Compensated absences will be paid from the fund from which the employees' salaries are paid. This includes possible sick leave severance, accumulated vacation and separation severance.

The District's overall legal debt margin was \$2,974,013 with an energy conservation debt margin of \$297,401, and unvoted debt margin of \$35,045 at June 30, 2002.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002, are as follows:

<b>Fiscal year Ending June 30,</b>	<b>Bonds Payable</b>
2003	\$ 53,775
2004	54,738
2005	45,700
2006	41,900
Total	<u>\$ 196,113</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS**

**Western Ohio Computer Organization (WOCO)** - The District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$13,320 for services provided during the year. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Cooperative** – The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets will be distributed to the federal government, or to a state of local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2002, the District paid \$0 to SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Shelby County Local Professional Development Committee** - The District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**15. GROUP PURCHASING POOLS**

**Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan** - The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio EPC established this pool and CompManagement provides consultant services in the management of the program. Each year, the participating school districts pay an enrollment fee to the Southwestern Ohio EPC to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**Ohio School Risk Sharing Authority** - The District participates in the Ohio School Risk Sharing Authority (the Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services.

The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**16. GRANTS**

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

**17. SET-ASIDE CALCULATIONS**

The District is required by State statute to annually set aside an amount based on prior year revenues for the purchase of textbooks and other instructional materials and an additional amount for capital improvements. Amounts not spent by year-end or offset by similarly restricted resources must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and instructional materials, and capital improvements from the end of the prior year to the end of the current year. Disclosure of this information is required by State statute. We have also disclosed the amount in reserve for school bus purchases.

		<b>Capital</b>	<b>Budget</b>
	<b>Textbooks</b>	<b>Acquisition</b>	<b>Stabilization</b>
Set-aside Balance at June 30, 2001	\$ (10,311)	\$ -	\$ 9,720
Current Set-aside Requirement	57,821	57,821	-
Current Year Off-sets	-	-	-
Qualifying Disbursements	(49,693)	(50,256)	-
Set-aside Carried Forward to July 1, 2002	<u>(2,183)</u>	<u>7,565</u>	<u>9,720</u>
Set-aside Reserve Balance at June 30, 2002	<u>\$ -</u>	<u>\$ 7,565</u>	<u>\$ 9,720</u>
Amount Restricted for School Bus Purchases			<u>\$ 36,346</u>

The Budget Stabilization balance is \$9,270, which represents the Bureau of Workers Compensation rebates received in previous fiscal years. The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amounts below zero. The textbook amount may be used to reduce the set-aside requirements in future fiscal years.

**18. SCHOOL FUNDING COURT DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

1. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
2. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**18. SCHOOL FUNDING COURT DECISION (Continued)**

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2001**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$701,309	\$121,725	\$262,679	\$10,916
Cash with Fiscal and Escrow Agents		6,474	33,088	
Receivables:				
Taxes	984,717		17,076	
Accounts	10,763	615		
Accrued Interest	8,188			
Materials and Supplies Inventory	5,349			
Inventory Held for Resale				
Restricted Assets:				
Cash	85,402			
Fixed Assets, (Net where applicable of Accumulated Depreciation)				
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets	<u>1,795,728</u>	<u>128,814</u>	<u>312,843</u>	<u>10,916</u>
<b>Liabilities, Fund Equity, and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	7,812	150		
Accrued Wages and Benefits	225,851	4,404		
Compensated Absences Payable				
Intergovernmental Payable	55,372	673		
Deferred Revenue	859,079		15,533	
Due to Students				
Matured Bonds Payable			30,000	
Matured Interest Payable			3,088	
Energy Conservation Loans Payable				
General Obligation Bonds Payable				
Total Liabilities	<u>1,148,114</u>	<u>5,227</u>	<u>48,621</u>	
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved for Encumbrances	18,996	682		1,500
Reserved for Inventory	5,349			
Reserved for Budget Stabilization	9,720			
Reserved for Taxes	37,985		1,543	
Reserved for Bus Purchase	75,682			
Undesignated	499,882	122,905	262,679	9,416
Total Fund Equity and Other Credits	<u>647,614</u>	<u>123,587</u>	<u>264,222</u>	<u>10,916</u>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b><u>\$1,795,728</u></b>	<b><u>\$128,814</u></b>	<b><u>\$312,843</u></b>	<b><u>\$10,916</u></b>

See Accompanying Notes to the General Purpose Financial Statements



Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$25,313	\$28,833			\$1,150,775 39,562
				1,001,793 11,378 8,188
155				5,504
2,583				2,583
				85,402
2,020		\$3,222,274		3,224,294
			\$262,679	262,679
			148,232	148,232
<u>30,071</u>	<u>28,833</u>	<u>3,222,274</u>	<u>410,911</u>	<u>5,940,390</u>
12	66			8,040
3,372				233,627
2,822			162,322	165,144
2,822			36,889	95,756
				874,612
	27,683			27,683
				30,000
				3,088
			6,700	6,700
			205,000	205,000
9,028	27,749		410,911	1,649,650
		3,222,274		3,222,274
21,043				21,043
				21,178
				5,349
				9,720
				39,528
				75,682
	1,084			895,966
21,043	1,084	3,222,274		4,290,740
<u>\$30,071</u>	<u>\$28,833</u>	<u>\$3,222,274</u>	<u>\$410,911</u>	<u>\$5,940,390</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	Expendable Trust	
<b>REVENUE:</b>						
Property Taxes	\$852,058		\$60,983			\$913,041
Income Taxes	267,648					267,648
Intergovernmental	1,584,654	\$186,447	6,725	\$21,500		1,799,326
Interest	80,779					80,779
Tuition and Fees	373,924					373,924
Extracurricular Activities		33,688				33,688
Gifts & Donation		1,527			\$500	2,027
Miscellaneous	24,287					24,287
<b>Total Revenues</b>	<b>3,183,350</b>	<b>221,662</b>	<b>67,708</b>	<b>21,500</b>	<b>500</b>	<b>3,494,720</b>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular	1,408,665	29,270		22,511		1,460,446
Special	181,691	59,538				241,229
Adult/Continuing	2,484					2,484
Other	8,299					8,299
Support Services:						
Pupils	149,867	14,978				164,845
Instructional Staff	174,533	16,463				190,996
Board of Education	8,376				500	8,876
Administration	352,730	137				352,867
Fiscal	128,065		1,037			129,102
Operation and Maintenance of Plant	348,909	6,565		2,800	416	358,690
Pupil Transportation	299,543					299,543
Business	4,954					4,954
Extracurricular Activities	81,856	24,796				106,652
Capital Outlay	1,520					1,520
Debt Service:						
Principal Retirement	6,700		40,000			46,700
Interest and Fiscal Charges	797		21,375			22,172
<b>Total Expenditures</b>	<b>3,158,989</b>	<b>151,747</b>	<b>62,412</b>	<b>25,311</b>	<b>916</b>	<b>3,399,375</b>
Excess of Revenues Over (Under) Expenditures	24,361	69,915	5,296	(3,811)	(416)	95,345
<b>Other Financing Sources (Uses):</b>						
Other Financing Sources						
Transfer - Out	(8,000)					(8,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(8,000)</b>					<b>(8,000)</b>
Excess of Revenues and Other Financing Sources Over/Under Expenditures and Other Financing Uses	16,361	69,915	5,296	(3,811)	(416)	87,345
Fund Balances at Beginning of Year	631,253	53,672	258,926	14,727	1,500	960,078
<b>Fund Balances at End of Year</b>	<b>\$647,614</b>	<b>\$123,587</b>	<b>\$264,222</b>	<b>\$10,916</b>	<b>\$1,084</b>	<b>\$1,047,423</b>

See Accompanying Notes to the General Purpose Financial Statements.

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Property Taxes	\$847,822	\$853,117	\$5,295			
Income Taxes	216,337	256,169	39,832			
Intergovernmental	1,549,350	1,580,104	30,754	\$103,103	\$157,655	\$54,552
Interest	80,000	73,397	(6,603)			
Tuition and Fees	327,000	372,472	45,472			
Extracurricular Activities				23,250	33,073	9,823
Gifts & Donations				1,000	1,527	527
Miscellaneous	13,711	18,901	5,190			
<b>Total Revenues</b>	<b>3,034,220</b>	<b>3,154,160</b>	<b>119,940</b>	<b>127,353</b>	<b>192,255</b>	<b>64,902</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	1,432,461	1,408,162	24,299	40,445	29,270	11,175
Special	185,076	179,523	5,553	36,895	36,915	(20)
Adult/Continuing	5,150	2,775	2,375			
Other	11,583	8,884	2,699			
Support Services:						
Pupils	153,240	143,269	9,971	21,400	12,835	8,565
Instructional Staff	194,786	179,199	15,587	26,361	8,254	18,107
Board of Education	8,854	8,376	478			
Administration	362,713	360,736	1,977			
Fiscal	149,223	128,443	20,780	923		923
Operation and Maintenance of Plant	368,656	355,377	13,279	7,500	6,565	935
Pupil Transportation	333,564	302,251	31,313			
Business	9,600	4,954	4,646			
Extracurricular Activities	87,213	81,773	5,440	27,350	25,264	2,086
Capital Outlay	1,730	1,730				
Principal Retirement	6,700	6,700				
Interest and Fiscal Charges	1,195	797	398			
<b>Total Expenditures</b>	<b>3,311,744</b>	<b>3,172,949</b>	<b>138,795</b>	<b>160,874</b>	<b>119,103</b>	<b>41,771</b>
Excess of Revenues Over (Under) Expenditures	(277,524)	(18,789)	258,735	(33,521)	73,152	106,673
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	2,000	2,023	23			
Transfer-Out		(8,000)	(8,000)			
Advances - In	5,000	5,000				
Advances - Out				(5,000)	(5,000)	
<b>Total Other Financing Sources (Uses)</b>	<b>7,000</b>	<b>(977)</b>	<b>(7,977)</b>	<b>(5,000)</b>	<b>(5,000)</b>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(270,524)	(19,766)	250,758	(38,521)	68,152	106,673
Fund Balances at Beginning of Year	717,338	717,338		52,261	52,261	
Prior Year Encumbrances Appropriated	64,399	64,399		476	476	
<b>Fund Balances at End of Year</b>	<b>\$511,213</b>	<b>\$761,971</b>	<b>\$250,758</b>	<b>\$14,216</b>	<b>\$120,889</b>	<b>\$106,673</b>

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service			Capital Project			Expendable Trust		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$66,495	\$64,120	(\$2,375)						
6,218	6,725	507	\$16,000	\$21,500	\$5,500			
						\$500	\$500	
72,713	70,845	(1,868)	16,000	21,500	5,500	500	500	
			26,349	22,511	3,838			
						1,000	500	\$500
2,100	1,037	1,063	4,370	4,300	70	1,000	416	584
40,000	40,000							
21,200	21,375	(175)						
63,300	62,412	888	30,719	26,811	3,908	2,000	916	1,084
9,413	8,433	(980)	(14,719)	(5,311)	9,408	(1,500)	(416)	1,084
9,413	8,433	(980)	(14,719)	(5,311)	9,408	(1,500)	(416)	1,084
254,246	254,246		14,726	14,726		1,500	1,500	
<b>\$263,659</b>	<b>\$262,679</b>	<b>(\$980)</b>	<b>\$7</b>	<b>\$9,415</b>	<b>\$9,408</b>	<b>\$0</b>	<b>\$1,084</b>	<b>\$1,084</b>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Enterprise</u>
<b>OPERATING REVENUE:</b>	
Sales	\$76,719
Total Operating Revenue	76,719
<b>OPERATING EXPENSES:</b>	
Salaries & Wages	19,244
Fringe Benefits	9,806
Purchased Services	47,014
Cost of Sales	33,219
Depreciation	217
Total Operating Expenses	109,500
Operating Income/(Loss)	(32,781)
<b>Non-Operating Revenues/Expenses</b>	
Intergovernmental Revenue	26,106
Federal Donated Commodities	14,007
Interest	1,276
Total Non-Operating Revenue/Expenses	41,389
Net Income	8,608
Retained Earnings at Beginning of Year	12,435
<b>Retained Earnings at End of Year</b>	<b>\$21,043</b>

*See Accompanying Notes to the General Purpose Financial Statements.*

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**Increase (Decrease) in Cash and Cash Equivalents:**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$76,719
Cash Payments for Employee Services and Benefits	(27,800)
Cash Payments to Suppliers For Goods and Services	(68,642)
Net Cash Used In Operating Activities	<u>(19,723)</u>

**Cash Flows from Noncapital Financing Activities:**

Federal and State Subsidies	26,203
Net Cash Provided By Noncapital Financing Activities	<u>26,203</u>

**Cash Flows from Investing Activities:**

Interest	1,276
Net Cash Provided By Investing Activities	<u>1,276</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,756
Cash and Cash Equivalents Beginning of Year	<u>17,557</u>
Cash and Cash Equivalents End of Year	<u><u>25,313</u></u>

**Reconciliation of Operating Income (Loss) to Net**

<b>Cash Used In Operating Activities:</b>	
Operating Income (Loss)	(32,781)

**Adjustments to Reconcile Operating Income (Loss) to**

<b>Net Cash Used In Operating Activities:</b>	
Depreciation	217
Donated Commodities Received	11,499
Changes in Assets and Liabilities:	
(Increase)/Decrease in Materials & Supplies Inventory	(37)
(Increase)/Decrease in Inventory Held for Resale	117
Increase/(Decrease) in Accounts Payable	12
Increase/(Decrease) in Accrued Salaries & Benefits Payable	415
Increase/(Decrease) in Intergovernmental Payable	(316)
Increase/(Decrease) in Compensated Absences Payable	1,151
Net Cash Used In Operating Activities	<u><u>(\$19,723)</u></u>

*See Accompanying Notes to the General Purpose Financial Statements.*

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

Fairlawn Local School District (the "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 District operates under a locally elected Board form of government and provides educational services as authorized by State and/or federal agencies. This Board controls the District's two instructional/support facilities staffed by 31 non-certificated employees, 38 certificated full time teaching personnel and 3 administrative employees to provide services to 507 students and other community members

The District serves an area of approximately 58 square miles. It is located in Shelby County, including all of Green and Perry Townships, and portions of Salem Township. The District is the 602nd largest in the State of Ohio (among 612 school districts) in terms of enrollment.

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with the Western Ohio Computer Organization (WOCO), Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Instructional Technology Association (SOITA), Shelby County Local Professional Development Consortium, West Central Ohio Special Education Regional Resource Center (West Central SERRC), which are jointly governed organizations. The District is also associated with the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan and the Shelby County Schools Consortium, which are classified as insurance purchasing pools. These organizations are presented in Notes 15 and 16 to the general-purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting**

The District uses funds and account groups to report on 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 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 not recorded in the funds because they do not directly affect net available expendable resources.

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

**1. Governmental Fund Types:**

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

**General Fund**

The general fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the 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 expendable trusts major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund**

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**Capital Projects Funds**

The 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 enterprise funds or trust funds).

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Proprietary Fund Type:**

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

**Enterprise Fund**

The enterprise fund is 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.

**3. Fiduciary Fund Types**

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

**4. Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities 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 District, other than those accounted for in the proprietary or trust funds.

**General Long-Term Obligations Account Group**

This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary or trust 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 the expendable trust fund 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.

The proprietary fund is 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. Operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 of accounting is followed for the proprietary fund types.

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 the modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the District is sixty days after fiscal year end.

Non exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: Property taxes available as an advance, taxpayer-assessed income taxes, interest, grants and student fees.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue.

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

On the accrual basis of accounting expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as Federal Donated Commodities revenue on the operating statement.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process**

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 appropriations 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 special revenue funds grant activity that is administered by a fiscal agent is not budgeted by the District. The legal level of budgetary control is at the fund/function level of General and Debt Service Funds and at the fund level for all other funds. 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.

**1. 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 Shelby County Budget Commission for rate determination.

**2. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the 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 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 District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

**3. 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 must be legally enacted by the Board of Education at the fund/function level of expenditures for the general and debt service funds and at the fund level of all other funds, which are the legal levels 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 District.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the general or debt service funds, must be approved by the Board of Education.

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. 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, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**4. 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. 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 the enterprise fund.

**5. 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, all cash received by the District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The balance of various grant activity administered by another governmental agency, and held with the fiscal agent outside the District Treasury, is presented on the balance sheet as "cash with fiscal agent," and represents deposits.

During fiscal year 2001, investments were limited to repurchase agreements and certificates of deposit.

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 2001 amounted to \$80,779, which includes \$22,383 assigned from other District funds. In addition, the enterprise fund received \$1,276 in interest.

For purposes of the 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 the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Inventory**

Inventories of governmental funds are stated at cost while inventories of the enterprise fund 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 costs of inventory items are recorded as 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 expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food, and purchased non-foods and are expensed when used.

**F. 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 amounts required by statute to be set aside by the District for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**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 the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund 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 District maintains a capitalization threshold of three hundred dollars.

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 in the enterprise fund is computed using the straight-line method over an estimated useful life of 5 to 20 years. Improvements to fund fixed assets are capitalized and depreciated over the remaining useful lives of the related fixed assets.

**H. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis are recorded as receivables and revenues when measurable and available.

Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. The District currently participates in several State and Federal programs, categorized as follows:

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Entitlements**

**General Fund**

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allowance

**Non-Reimbursable Grants**

**Special Revenue Funds**

- Education Management Information Systems
- Title VI-B
- Title I
- Title VI
- Professional Development Grant
- School Net Professional Development
- Eisenhower Grant Title II
- Pre-School Grant
- Drug Free Grant Title IV
- Title VI-R
- School Improvement Incentive
- Network Connectivity
- SchoolNet Praise Grant
- Summer School

**Capital Projects**

- School Net Plus
- Technology Grant
- IVDL Grant

**Reimbursable Grants**

**Special Revenue Fund**

- Telecommunications Act Grant

**Proprietary Funds**

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements received in governmental funds amounted to approximately 51.5 percent of the District's governmental fund revenue during the 2001 fiscal year.

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The District records a liability for accumulated unused sick leave for employees after ten years of current service with the District. The full amount of the governmental compensated absences will be recorded in the general long-term obligation account group. These amounts are recorded in the account "compensated absences payable". In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 and pension obligations 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 available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available resources. Bonds are reported as a liability of the general long-term debt account group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the appropriate 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 District records reservations for portions of fund equity which are legally segregated for specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and material, 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 appropriations under State statute. The reserve for budget stabilization represents money the District's portion of Bureau of Worker's Compensation refunds.

**M. Estimates**

The preparation of the 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 could differ from those estimates.

**N. Total Columns on General-Purpose Financial Statements**

Total columns on the general-purpose financial statements are captioned "Total - (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. Inter-fund eliminations have not been made in the aggregation of this data.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2001, the District has implemented *Governmental Accounting Statement No. 33, Accounting and Financial reporting for Non exchange Transactions*. This statement established accounting and reporting guidelines for non exchange transactions in which a government receives or gives value without directly receiving (or giving) equal value in exchange. Implementation of this statement did not materially affect the financial statements as of June 30, 2001.

**4. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/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 (Non-GAAP Basis) and Actual-All Governmental Fund Types and Expendable Trust Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/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 disclosure in the enterprise fund (GAAP basis).
4. The District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent are included in the special revenue funds for GAAP reporting purposes.

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

**Excess of Revenues and Other Financing Sources  
Over(Under) Expenditures and Other Financing Uses  
Governmental and Expendable Trust Funds**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>
GAAP Basis	\$16,361	\$69,915	\$5,296	(\$3,811)	(\$416)
Revenue Accruals	(22,167)	6,261	3,137		
Expenditure Accruals	10,784	(5,537)			
Non-Budgeted Funds		(1,655)			
Encumbrances Out- Standing At Year-end	(24,744)	(832)		(1,500)	
Budget Basis	<u>(\$19,766)</u>	<u>\$68,152</u>	<u>\$8,433</u>	<u>(\$5,311)</u>	<u>(\$416)</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**5. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board 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 or deposit accounts including passbook accounts.

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 or interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in the division (1) OR (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

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

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

Cash on hand: At fiscal year end, the District had \$1,650 in undeposited cash on hand, which is included on the Combined Balance Sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$39,562 shown in the special revenue funds is maintained with the Shelby County Educational Service Center and Bank One. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*".

**Deposits:** At fiscal year end, the carrying amount of the District's deposits was \$862,478 and the bank balance was \$904,573. Of the bank balance (*includes bank safe amount*), \$101,633 was covered by federal depository insurance; and \$802,940 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

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

	<u>Category 3</u>	<u>Carrying /Market Value</u>
Repurchase Agreement (SWEEP)	\$372,049	\$372,049

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.

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar fiscal year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) is for calendar 2001 taxes.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**6. PROPERTY TAXES (Continued)**

2001 real property taxes are levied after April 1, 2000, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half-2001 real property taxes are collected in and intended to finance fiscal year 2001.

Public utility tangible personal property currently is assessed at varying percentage of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2000 and are collected in 2001 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

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

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

The assessed values upon which fiscal year 2001 taxes were collected are:

	<b>2000 Second- Half Collections</b>		<b>2001 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	27,574,980	77%	\$27,574,980	78%
Public Utility	7,714,360	21	7,257,880	20
Tangible Personal Property	652,751	2	506,090	2
Total Assessed Value	<u>\$35,942,091</u>	<u>100%</u>	<u>\$35,338,950</u>	<u>100%</u>
Tax rate per \$1,000 of Assessed valuation	\$31.6		\$31.6	

Manufactured Home Tax, commonly referred to as House Trailer Tax, is based on the purchase price obtained from the title: (1) ninety-five percent unfurnished or (2) eighty percent furnished with a five percent drop each year.

The District receives property taxes from Shelby County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became available as of June 30, 2001. Although total property tax allocations for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended and 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, 2001, was \$37,985 in the general fund and \$1,543 in the bond retirement debt service fund.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**7. INCOME TAX**

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**8. RECEIVABLES**

Receivables at June 30, 2001, consisted of property and income taxes, accounts (billings for user charged services and student fees), interest, inter-fund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**9. FIXED ASSETS**

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$ 41,535
Less Accumulated Depreciation	<u>(39,515)</u>
Net Fixed Assets	<u><u>\$ 2,020</u></u>

A summary of the change in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 06/30/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/01</u>
Land and Improvements	\$ 222,825	\$ -	\$ -	\$ 222,825
Buildings and Improvements	1,488,059	-	-	1,488,059
Furniture, Fixtures and Equipment	831,763	64,517	30,007	866,273
Vehicles	467,691	65,699	-	533,390
Infrastructure	97,947	13,780	-	111,727
Totals	<u><u>\$3,108,285</u></u>	<u><u>\$143,996</u></u>	<u><u>\$30,007</u></u>	<u><u>\$3,222,274</u></u>

**10. RISK MANAGEMENT**

**A. Property and Liability**

The 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. During fiscal year 2000, the District contracted with Indiana Insurance Company through Ruese Insurance Agency for property and fleet insurance, and inland marine coverage. The District contracted with Nationwide Mutual Insurance Company through Harcum Insurance Agency for liability insurance.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**10. RISK MANAGEMENT (Continued)**

Coverage provided by Indiana Insurance Company is as follows:

Building and Contents - replacement cost (\$500 deductible)	\$7,900,000
Inland Marine Coverage (\$100 deductible)	55,000
Boiler and Machinery (\$500 deductible)	No limit
Crime Insurance	5,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Coverage provided by Nationwide Mutual Insurance Company is as follows:

General Liability	
Per occurrence	1,000,000
Aggregate	5,000,000
Umbrella Additional coverage	4,000,000

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

**B. Medical, Dental and Life Insurance Benefits**

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 16) consisting of seven school districts and an educational service center. The District pays monthly premiums to Anthem Blue Cross/Blue Shield for medical and dental benefits, and also pays monthly premium to Medical Life for life insurance benefits

**C. Worker's Compensation**

For fiscal year 2001, the District participated in the Southwestern Ohio Educational Purchasing Cooperative, Workers' Compensation Group Grating Program, an insurance purchasing pool (Note 16). The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan.

Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent. For fiscal year 2001, 4.20 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory requirements, by the SERS's Retirement Board. The District's contributions to SERS for the fiscal years ending June 30, 2001, 2000, and 1999 were \$22,605, \$21,866 and \$36,863, respectively; 45.29 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$41,220 representing the unpaid contribution for fiscal year 2001 is recorded as a liability within the respective funds and the general long-term debt account group.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions to STRS for the fiscal years ending June 30, 2001, 2000, and 1999 were \$141,216, \$84,146, and \$81,614, respectively; 84.14 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$33,016 representing the unpaid contribution for fiscal year 2001 is recorded as a liability within the respective funds.

**12. POSTEMPLOYMENT BENEFITS**

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



**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$66,892 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (latest information available). 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, 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. For this fiscal year June 30, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 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. For the District, the amount to fund health care benefits, including the surcharge, equaled \$56,609 during the 2001 fiscal year.

**13. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment up to six weeks. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for certified personnel and unlimited days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for certified employees and the entire balance for classified employees.

**B. Health Care Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life. The District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is provided by the District to most employees through Anthem.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**14. LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2001 were as follows:

	<b>Outstanding 6/30/2001</b>	<b>Additions</b>	<b>Deductions</b>	<b>Outstanding 6/30/2002</b>
School Improvement Bonds-1983 9.5%	\$ 245,000	\$ -	\$ 40,000	\$ 205,000
Energy Conservation Loan-1991 5.95%	13,400	-	6,700	6,700
Total Long-term Debt	258,400	-	46,700	211,700
Intergovernmental Payable	21,082	36,889	21,082	36,889
Compensated Absences	120,482	41,840	-	162,322
Total Long-term Obligations	<u>\$ 399,964</u>	<u>\$ 78,729</u>	<u>\$ 67,782</u>	<u>\$ 410,911</u>

**Fairlawn Local School Improvement Bonds**

On April 1, 1983, The District issued \$900,000 in voted general obligation bonds for the purpose of a school improvement to the high school building. The bonds were issued for a twenty-two year period with final maturity at December 1, 2005. This bond will be paid from tax revenue in the debt service fund.

**Energy Conservation Loan**

On October 10, 1991, The District entered into a \$67,000 unvoted general obligation note for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Sections 3313.372 and 3313.373. The note was issued for a ten year period with final maturity during fiscal year 2002. The debt is to be retired from savings anticipated from the energy conservation improvements.

**Intergovernmental Payable** - Intergovernmental payable consists of SERS and SERS surcharge liabilities that will not be paid with current available expendable financial resources, and will be paid from the fund from which the employees' salaries are paid.

**Compensated Absences** - Compensated absences will be paid from the fund from which the employees' salaries are paid. This includes possible sick leave severance, accumulated vacation and separation severance.

The District's overall legal debt margin was \$3,219,714 with an energy conservation debt margin of \$321,972, and unvoted debt margin of \$35,775 at June 30, 2001.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2001, are as follows:

<b>Fiscal year Ending June 30,</b>	<b>Bonds Payable</b>	<b>Energy Conservation Loan</b>
2002	\$ 57,575	\$ 7,098
2003	53,775	0
2004	54,738	0
2005	45,700	0
2006	41,900	0
Total	<u>\$ 253,688</u>	<u>\$ 7,098</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS**

**Western Ohio Computer Organization (WOCO)** - The District is a participant in the Western Ohio Computer Organization which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each School elected by majority vote of all charter member schools within each county plus one representative and the fiscal agent.

WOCO is not accumulating significant financial resources nor is it experiencing financial stress that may cause an additional financial benefit or burden to the District. The District paid WOCO \$13,320 for services provided during the year. Financial information can be obtained from Sonny Ivy, who serves as director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Cooperative** – The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institution. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representative after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets will be distributed to the federal government, or to a state of local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2001, the District paid \$0 to SOITA. To obtain financial information, write to the Southwestern Ohio Instruction Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS**

**Shelby County Local Professional Development Committee** - The District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**16. GROUP PURCHASING POOLS**

**Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan** - The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio EPC established this pool and CompManagement provides consultant services in the management of the program. Each year, the participating school districts pay an enrollment fee to the Southwestern Ohio EPC to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

**17. GRANTS**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2001.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**18. SET-ASIDE CALCULATIONS**

The District is required by State statute to annually set aside an amount based on prior year revenues for the purchase of textbooks and other instructional materials and an addition amount for capital improvements. Amounts not spent by year-end or offset by similarly restricted resources must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and instructional materials, and capital improvements from the end of the prior year to the end of the current year. Disclosure of this information is required by State statute. We have also disclosed the amount in reserve for school bus purchases.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Balance at June 30, 2000	\$ 8,837	\$ 911	\$40,769
Statutory Elimination of Budget Stabilization			(31,049)
Current Set-aside Requirement	65,214	65,214	
Additional Set-aside by District	3,486		
Current Year Off-sets	-	-	
Qualifying Disbursements	<u>(87,848)</u>	<u>(67,370)</u>	-
Set-aside Carried Forward to July 1, 2001	<u>(10,311)</u>	<u>(1,245)</u>	<u>9,720</u>
Set-aside Reserve Balance at June 30, 2001	<u>\$ (10,311)</u>	<u>\$ (1,245)</u>	<u>\$ 9,720</u>
Amount Restricted for School Bus Purchases			<u>\$75,682</u>

The Budget Stabilization balance is \$9,270, which represents the Bureau of Workers Compensation rebates received in previous fiscal years. The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set-aside amounts below zero. The textbook amounts may be used to reduce the set-aside requirements in future fiscal years.

**19. SCHOOL FUNDING COURT DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

1. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
2. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor / Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	Not Available	10.550		\$14,275		\$13,491
National School Lunch Program	LLP4-01 & 02	10.555	\$30,376		\$30,376	
National School Milk Program	02PU-01 & 02	10.556	739		739	
Total U.S. Department of Agriculture - Nutrition Cluster			31,115	14,275	31,115	13,491
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Technology Literacy Challenge	TF-VL-00 6B-SF-00	84.318	9,000 200,000		9,000 179,015	
Total Technology Literacy Challenge			209,000		188,015	
Assistive Technology Infusion	AT-S1-02	84.352	2,835		2,835	
Grants to Local Education Agencies (ESEA Title I)	C1-S1-01 C1-S1-02	84.010			6,222 31,975	
Total Title I			32,237		38,197	
Eisenhower Professional Development	MS-S1-01 MS-S1-02	84.281			1,797 2,262	
Total Eisenhower Professional Development			2,403		4,059	
Class Size Reduction Subsidy	CR-S1-02	84.340	12,610		12,249	
Drug Free Schools	DR-S1-02	84.186	1,926		1,926	
Goals 2000	G2-S2-00 G2-S2-01	84.276			6,169 12,015	
Total Goals 2000					18,184	
Innovative Education Program Strategy	C2-S1-02	84.298	2,598		2,147	
Total U.S. Department of Education			263,609		267,612	
<b>Total Federal Assistance</b>			<b>\$294,724</b>	<b>\$14,275</b>	<b>\$298,727</b>	<b>\$13,491</b>

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the 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 U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2002, the District had no significant food commodities in inventory.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D - COMMINGLING OF FEDERAL MONIES**

Several federal program monies were commingled with state and/or local revenues. It was assumed federal monies were expended first.

**NOTE E - COOPERATIVE AGREEMENT**

The District has joined a Cooperative with Shelby County Educational Service Center to handle Title VI-B, Eisenhower 2000, and Handicapped Preschool Federal programs. The Shelby County Educational Service Center received \$34,885 and expended \$38,981 in federal funds for the District. This grant activity is reported as part of the Shelby County Education Service Center's federal schedule.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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

Fairlawn Local School District  
Shelby County  
18800 Johnston Road  
Sidney, Ohio 45365

To the Members of the Board:

We have audited the financial statements of Fairlawn Local School District, Shelby County, (the District) as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 20, 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 20, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 20, 2002.

Fairlawn Local School District  
Shelby County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

November 20, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

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

Fairlawn Local School District  
Shelby County  
18800 Johnston Road  
Sidney, Ohio 45365

To the Members of the Board:

**Compliance**

We have audited the compliance of Fairlawn Local School District, Shelby County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The 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 District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

**Internal Control Over Compliance**

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

**Internal Control Over Compliance  
(Continued)**

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 management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Jim Petro**  
Auditor of State

November 20, 2002

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

(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 noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Technology Literacy Challenge Grants CFDA # 84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**FAIRLAWN LOCAL SCHOOL DISTRICT**

**SHELBY 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  
JANUARY 2, 2003**