



**Auditor of State  
Betty Montgomery**



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2004 .....	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2004 .....	4
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2004 .....	5
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - For the Fiscal Year Ended June 30, 2004.....	6
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2003 .....	8
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2003 .....	9
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2003 .....	10
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - For the Fiscal Year Ended June 30, 2003.....	12
Notes to the Financial Statements .....	15
Schedule of Federal Awards Expenditures For the Fiscal Year Ended June 30, 2004 .....	31
Notes to the Schedule of Federal Awards Expenditures .....	32
Independent Accountants' Report on Compliance and On Internal Control Required by <i>Government Auditing Standards</i> .....	33
Independent Accountants' Report on Compliance With Requirements Applicable To Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	35
Schedule of Findings.....	37

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of the Board:

We have audited the accompanying financial statements of Fairlawn Local School District, Shelby County, (the District), as of and for the year ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the fourth paragraph, 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.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Because of inadequacies in the District's accounting records, we were unable to obtain sufficient documentation to support the amounts recorded as \$91,850 and \$93,635, respectively, in the Food Service Fund, Proprietary Fund Type for fiscal years 2004 and 2003. These amounts represent 76 percent of enterprise fund revenue in both fiscal years. Without this evidential matter, we were not able to audit the receipts recorded in the enterprise fund, or satisfy ourselves regarding the validity of the receipts through other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the enterprise fund type food services receipts, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Fairlawn Local School District, as of June 30, 2004 and 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the District changed its method of accounting for financial reporting.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We conducted our audit to form an opinion on the financial statements. U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires presenting a schedule of federal awards expenditures that is not a required part of the financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

October 22, 2004

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Governmental Fund Types</b>				<b>Fiduciary Funds</b>	<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Expendable Trust</b>	
<b>Cash Receipts</b>						
Taxes	\$1,041,662					\$1,041,662
Tuition	552,132					552,132
Classroom Materials & Fees	19,999					19,999
Intergovernmental	1,809,988	\$225,112	\$6,740	\$288,115		2,329,955
Interest	9,901					9,901
Extracurricular Activities		28,194				28,194
Miscellaneous	4,527	13,116			\$500	18,143
<b>Total Cash Receipts</b>	<b>3,438,209</b>	<b>266,422</b>	<b>6,740</b>	<b>288,115</b>	<b>500</b>	<b>3,999,986</b>
<b>Cash Disbursements</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	1,541,480	76,702		11,550		1,629,732
Special	189,731	96,453				286,184
Adult/Continuing	7,025					7,025
Other	9,454					9,454
<b>Support Services:</b>						
Pupils	127,409	21,220				148,629
Instruction	228,532	7,475				236,007
Board of Education	8,758	24,595			500	33,853
Administration	412,438					412,438
Fiscal	148,922	750				149,672
Business	4,199					4,199
Operation and Maintenance	310,568	38				310,606
Transportation	331,483					331,483
Central Services		1,177				1,177
Extracurricular Activities	89,008	27,799				116,807
Capital Outlay	1,403			417,996		419,399
Debt Payments			54,738			54,738
<b>Total Cash Disbursements</b>	<b>3,410,410</b>	<b>256,209</b>	<b>54,738</b>	<b>429,546</b>	<b>500</b>	<b>4,151,403</b>
Cash Receipts Over(Under) Cash Disbursements	27,799	10,213	(47,998)	(141,431)		(151,417)
<b>Other Financing Sources (Uses):</b>						
Refund of Prior year Expenditures	29,722					29,722
Sale of Assets	1,320					1,320
<b>Total Other Financing Sources (Uses)</b>	<b>31,042</b>					<b>31,042</b>
<b>Cash Receipts and Other Financing Sources Over(Under) Cash Disbursements and Other Financing Uses</b>						
	58,841	10,213	(47,998)	(141,431)		(120,375)
Fund Cash Balances, July 1, 2003	892,225	59,685	178,589	276,218	1,084	1,407,801
Fund Cash Balances, June 30, 2004	<u>\$951,066</u>	<u>\$69,898</u>	<u>\$130,591</u>	<u>\$134,787</u>	<u>\$1,084</u>	<u>\$1,287,426</u>

The accompanying notes are an integral part of the financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Receipts</b>			
Food Services	\$91,850		\$91,850
Extracurricular Activities		\$94,393	94,393
Total Operating Receipts	91,850	94,393	186,243
<b>Operating Disbursements</b>			
Salaries	49,145		49,145
Fringe Benefits	14,142		14,142
Purchased Services	6,188	72,944	79,132
Materials and Supplies	56,591	12,960	69,551
Capital Outlay	26		26
Other Objects		1,252	1,252
Total Operating Disbursements	126,092	87,156	213,248
Operating Income (Loss)	(34,242)	7,237	(27,005)
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous		3,445	3,445
Interest	359		359
Federal and State Subsidies	29,160		29,160
Total Non-Operating Revenues and (Expenses)	29,519	3,445	32,964
Net Income (Loss)	(4,723)	10,682	5,959
Fund Cash Balances, July 1, 2003	38,548	21,032	59,580
<b>Fund Cash Balances, June 30, 2004</b>	<u>\$33,825</u>	<u>\$31,714</u>	<u>\$65,539</u>

*The accompanying notes are an integral part of the financial statements.*



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Fund Types/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable/ (Unfavorable)</b>
<b>Governmental:</b>			
General Fund	\$3,416,784	\$3,469,251	\$52,467
Special Revenue Funds	212,060	266,422	54,362
Debt Service Funds	3,100	6,740	3,640
Capital Project Funds	296,550	288,115	(8,435)
<b>Proprietary:</b>			
Enterprise Funds	126,582	121,369	(5,213)
<b>Fudiciary:</b>			
Expendable Trust	900	500	(400)
Total (Memorandum Only)	<u>\$4,055,976</u>	<u>\$4,152,397</u>	<u>\$96,421</u>

*The notes to the financial statements are an integral part of this statement.*

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	2004 <u>Appropriations</u>	<u>Total</u>
<b>Governmental:</b>			
General Fund	\$28,593	\$3,504,615	\$3,533,208
Special Revenue Funds	5,272	216,286	221,558
Debt Service Funds		55,000	55,000
Capital Project Funds	214,138	282,347	496,485
<b>Proprietary:</b>			
Enterprise Funds		137,838	137,838
<b>Fudiciary:</b>			
Expendable Trust		500	500
Total (Memorandum Only)	<u>\$248,003</u>	<u>\$4,196,586</u>	<u>\$4,444,589</u>

*The notes to the financial statements are an integral part of this statement.*

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$3,410,410	\$36,573	\$3,446,983	\$86,225
256,209	1,686	257,895	(36,337)
54,738		54,738	262
429,546	9,601	439,147	57,338
126,092		126,092	11,746
500		500	
<u>\$4,277,495</u>	<u>\$47,860</u>	<u>\$4,325,355</u>	<u>\$119,234</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Funds	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts</b>						
Taxes	\$1,028,659					\$1,028,659
Tuition	482,807					482,807
Classroom Materials & Fees	19,746					19,746
Intergovernmental	1,771,111	\$221,880	\$6,740	\$216,200		2,215,931
Interest	22,027					22,027
Extracurricular Activities		26,099				26,099
Miscellaneous	9,806	23,010			\$500	33,316
<b>Total Cash Receipts</b>	<b>3,334,156</b>	<b>270,989</b>	<b>6,740</b>	<b>216,200</b>	<b>500</b>	<b>3,828,585</b>
<b>Cash Disbursements</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	1,551,436	133,283		15,200		1,699,919
Special	174,265	86,318				260,583
Adult/Continuing	11,143					11,143
Other	9,799					9,799
<b>Support Services:</b>						
Pupils	138,542	22,859				161,401
Instruction	234,108	16,339				250,447
Board of Education	8,275	16,985			500	25,760
Administration	383,391					383,391
Fiscal	153,193	1,779				154,972
Business	4,944					4,944
Operation and Maintenance	309,268	480				309,748
Transportation	261,021					261,021
Central Services		926				926
Extracurricular Activities	87,060	27,553				114,613
Capital Outlay	12,789			81,289		94,078
Debt Payments			53,775			53,775
<b>Total Cash Disbursements</b>	<b>3,339,234</b>	<b>306,522</b>	<b>53,775</b>	<b>96,489</b>	<b>500</b>	<b>3,796,520</b>
Cash Receipts Over (Under) Disbursements	(5,078)	(35,533)	(47,035)	119,711		32,065
<b>Other Financing Sources (Uses):</b>						
Refund of Prior Year Expenditures	2,601					2,601
Operating Transfers Out	(3,500)					(3,500)
<b>Total Other Financing Sources (Uses)</b>	<b>(899)</b>					<b>(899)</b>
Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	(5,977)	(35,533)	(47,035)	119,711		31,166
Fund Cash Balances, July 1, 2002 (Restated)	898,202	95,218	225,624	156,507	1,084	1,376,635
Fund Cash Balances, June 30, 2003	<u>\$892,225</u>	<u>\$59,685</u>	<u>\$178,589</u>	<u>\$276,218</u>	<u>\$1,084</u>	<u>\$1,407,801</u>

*The accompanying notes are an integral part of the financial statements.*

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Receipts</b>			
Food Services	\$93,635		\$93,635
Extracurricular Activities		\$63,928	63,928
Total Operating Receipts	93,635	63,928	157,563
<b>Operating Disbursements</b>			
Salaries	45,755		45,755
Fringe Benefits	13,314		13,314
Purchased Services	5,152	60,935	66,087
Materials and Supplies	50,132	27,031	77,163
Capital Outlay	3,840		3,840
Other Objects		1,341	1,341
Total Operating Disbursements	118,193	89,307	207,500
Operating Income (Loss)	(24,558)	(25,379)	(49,937)
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous		4,653	4,653
Operating Transfers In		3,500	3,500
Interest	481		481
Federal and State Subsidies	28,331		28,331
Total Non-Operating Receipts and Disbursements	28,812	8,153	36,965
Net Income (Loss)	4,254	(17,226)	(12,972)
Fund Cash Balances, July 1, 2002 (Restated)	34,294	38,258	72,552
<b>Fund Cash Balances, June 30, 2003</b>	<b>\$38,548</b>	<b>\$21,032</b>	<b>\$59,580</b>

*The accompanying notes are an integral part of the financial statements.*

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b>Fund Types/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable/ (Unfavorable)</b>
<b>Governmental:</b>			
General Fund	\$3,347,005	\$3,336,757	(\$10,248)
Special Revenue Funds	219,992	270,989	50,997
Debt Service Funds		6,740	6,740
Capital Project Funds	290,200	216,200	(74,000)
<b>Proprietary:</b>			
Enterprise Funds	106,400	122,447	16,047
<b>Fudiciary:</b>			
Expendable Trust	500	500	
Total (Memorandum Only)	<u>\$3,964,097</u>	<u>\$3,953,633</u>	<u>(\$10,464)</u>

*The notes to the financial statements are an integral part of this statement.*

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	2003 <u>Appropriations</u>	<u>Total</u>
<b>Governmental:</b>			
General Fund	\$38,788	\$3,460,799	\$3,499,587
Special Revenue Funds	32,079	260,925	293,004
Debt Service Funds		55,000	55,000
Capital Project Funds	11,440	353,960	365,400
<b>Proprietary:</b>			
Enterprise Funds		140,113	140,113
<b>Fudiciary:</b>			
Expendable Trust	<u>500</u>	<u>1,000</u>	<u>1,500</u>
Total (Memorandum Only)	<u>\$82,807</u>	<u>\$4,271,797</u>	<u>\$4,354,604</u>

*The notes to the financial statements are an integral part of this statement.*



<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$3,342,734	\$28,593	\$3,371,327	\$128,260
306,522	5,272	311,794	(18,790)
53,775		53,775	1,225
96,489	214,342	310,831	54,569
118,193		118,193	21,920
500		500	1,000
<u>\$3,918,213</u>	<u>\$248,207</u>	<u>\$4,166,420</u>	<u>\$188,184</u>

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**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The District was established in 1953. 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 603rd smallest in the State of Ohio (among 612 school districts) in terms of enrollment. This Board controls the District's two instructional/support facilities staffed by 30 non-certificated employees, 39 certificated full time teaching personnel and 3 administrative employees to provide services to 529 students and other community members

**Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations' 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.

There are no component units of the Fairlawn Local School District.

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, and 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 Shelby County Schools Consortium, and the Southwestern Ohio Educational Purchasing Council Insurance Program which are classified as insurance purchasing pools.

These organizations are presented in Notes 11 and 12 to the financial statements.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

As required by Ohio Administrative Code Section 117-02-03(B), the District prepared and filed its annual report in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2003. However, the District chooses to prepare (for audit purposes) its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). The District neither prepared or filed its annual report in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2004.

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**B. Fund Accounting**

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

**1. 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.

**Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures 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**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(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 Funds**

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**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 are expendable trust and agency funds, which are custodial in nature.

**C. Budgetary Process**

**1. Tax Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year. For the years 2003 and 2004, the Shelby County Budget Commission has waived the Tax budget requirement.

**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 fiscal 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 of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

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

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

**D. Cash and Investments**

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

**E. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

**F. Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES**

For fiscal year 2003, the District changed its method of accounting for financial reporting from generally accepted accounting principles to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This change had the following effect on fund balances as previously reported:

<u>Fund</u>	<u>Fund Balance Retained Earnings 6/30/2002</u>	<u>Accrual Adjustments</u>	<u>Restated Fund Balance 7/1/2002</u>
General	\$732,563	\$165,639	\$898,202
Special Revenue	96,136	(918)	95,218
Debt Service	225,690	(66)	225,624
Capital Project	156,507		156,507
Enterprise	29,248	5,046	34,294
Expendable Trust	1,084		1,084
Agency	38,258		38,258

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

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

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

For the fiscal years ended June 30, 2004 and 2003, the District had \$100 in undeposited cash on hand, which is included in the fund balance.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

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

As of June 30, 2004 and 2003, the District had \$11,662 and \$1,662, respectively, on deposit for unredeemed notes and coupons from the 1983 improvement bonds, which is not included in the fund balance.

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

At June 30, 2004, the carrying amount of the District's deposits was \$1,234,813 and the bank balance was \$1,254,720. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,054,720 was uninsured and uncollateralized. At June 30, 2003, the carrying amount of the District's deposits was \$979,801 and the bank balance was \$994,364. Of the bank balance, \$200,000 was covered by federal depository insurance and \$794,364 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

At June 30, 2004 and 2003, the District had \$8,157 and \$9,600, respectively, in cash reported in the special revenue funds that is held by the Shelby County Educational Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement 3. The risk classifications for the Shelby County Education Service Center as a whole can be obtained by writing Cathy Doseck, who serves as Treasurer, at 129 East Court Street, Sidney, Ohio 45365.

**Investments:** The District's investments are categorized 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 for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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. Funds invested by the District are considered Category 3, and held in a sweep account, with a carrying value and market value of \$109,895 at June 30, 2004 and carrying value and market value of \$477,880 at June 30, 2003.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**5. PROPERTY TAXES (Continued)**

Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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 counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2003 Second – Half Collections</b>		<b>2004 First – Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$28,678,830	85%	\$28,934,530	85%
Public Utility	4,637,920	14	4,567,570	13
Tangible Personal	611,670	1	613,925	2
<b>Total Assessed Value</b>	<b>\$33,928,420</b>	<b>100%</b>	<b>\$34,116,025</b>	<b>100%</b>
Tax rate per \$1,000 of Assessed valuation	\$28.20		\$28.10	

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**6. RISK MANAGEMENT**

**A. Commercial Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District joined together with other districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Insurance Program, a public entity self insurance program (See Note 12), through Marsh USA, Inc., which provides insurance coverage as follows:

Coverage provided by Selective Insurance Co. of South Carolina is as follows:	
Buildings and Contents – replacement cost	\$12,600,000
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

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

The District participates in the Shelby County Schools Consortium, a group purchasing pool (Note 12) 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**

The school district participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 12). 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.

**7. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Combined Plan offers features of both the DB and DC Plan. In the Combined Plan, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DB Plan into the DC or Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10.0 percent of their annual covered salary and the District was required to contribute 14 percent. For the both fiscal years ended June 30, 2004 and 2003, the employer portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2004, 2003, and 2002: \$214,740, \$216,154, and \$149,945, respectively. Contributions to the DC and Combined Plans for fiscal year 2004 were \$713 made by the District and \$687 made by the plan members. The employer's share of retirement is deducted from the District's State foundation payments based on the retirement system estimated District payroll.

**B. School Employees Retirement System**

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations, with the remainder being used to fund health care benefits. For the fiscal year ended June 30, 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002: \$57,921, \$50,267, and \$24,966 respectively. The employer's share of retirement is deducted from the District's State foundation payments based on the retirement system estimated District payroll.

**C. Social Security System**

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

**8. POST EMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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.

All STRS Ohio benefit recipients and sponsored dependents eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal years ended June 2004 and 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount was \$16,515 during the 2004 fiscal year and \$16,627 during fiscal year 2003.

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

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**8. POST EMPLOYMENT BENEFITS (Continued)**

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal years ended June 30, 2004 and June 30, 2003, employer contributions to fund health care benefits were 4.91 and 5.83 percent, respectively, 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 both fiscal years 2004 and 2003, the minimum pay was established at \$14,500. For the District, the amount to fund health care benefits, including the surcharge, was \$40,587 and \$47,136 for fiscal year 2004 and 2003, respectively.

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 for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. LONG-TERM OBLIGATIONS**

At June 30, 2004, the District's long-term obligations were as follows:

	<u>Principal Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2004</u>
School Improvement Bonds 1983 - 9.5%	<u>\$125,000</u>	<u>\$0</u>	<u>\$45,000</u>	<u>\$80,000</u>

**Fairlawn Local School Improvement Bonds**

On April 1, 1983, Fairlawn Local District issued \$900,000 in voted general obligation bonds for the purpose of improvements 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.

The District's overall legal debt margin was \$3,281,033 with an energy conservation debt margin of \$307,044, and un-voted debt margin of \$34,116 at June 30, 2004.

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

<u>Fiscal year Ending June 30,</u>	<u>Improvement Bonds</u>
2005	\$ 45,700
2006	41,900
Total	<u>\$ 87,600</u>

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**10. SET ASIDE REQUIREMENTS**

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

Effective April 10, 2001, S.B. No. 345 eliminated the requirement that districts establish and maintain a budget stabilization reserve. The Act provided requirements for the disposition of any budget reserve balance that may have existed at April 10, 2001.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal years 2003 and 2004.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2002	\$(2,183)	\$7,565	\$9,720
Current Year Set Aside Requirement	68,044	68,044	0
Current Year Offsets	0	0	0
Qualifying Expenditures	(89,455)	(62,950)	0
Set Aside Reserve Balance June 30, 2003	<u>\$(23,594)</u>	<u>\$12,659</u>	<u>\$9,720</u>

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2003	\$(23,594)	\$12,659	\$9,720
Current Year Set Aside Requirement	68,838	68,838	0
Current Year Offsets	0	0	0
Qualifying Expenditures	(83,125)	(76,160)	0
Set Aside Reserve Balance June 30, 2004	<u>\$(37,881)</u>	<u>\$5,337</u>	<u>\$9,720</u>

The textbooks and instructional materials set-aside expenditures in excess of the set-aside requirements may be carried forward to offset future year's set-aside requirements.

A School Bus Reserve set aside had a balance of \$53,200 as of June 30, 2003 and \$4,627 as of June 30, 2004.

**11. JOINTLY GOVERNED ORGANIZATIONS**

**Western Ohio Computer Organization** - The District is a participant in the Western Ohio Computer Organization (WOCO) 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.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

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

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 \$23,353 for services provided during the fiscal year 2004. 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 Montgomery County Educational Service Center acts as the fiscal agent for the group. 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 by the fiscal agent. 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, Ken Swink, 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 institutions. 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 or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, 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.

**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.



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

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

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 Krista Hart, Treasurer, Hardin County Educational Service Center, 1211 W. Lima St., Suite A, Kenton, Ohio 43326-2385.

**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

**12. GROUP PURCHASING POOLS**

**Workers' Compensation Group Rating Plan** - For fiscal year 2003, the District participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member Districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**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. The degree of control exercised by any participating School District is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow Street, Dayton, Ohio 45402.

**Southwestern Ohio Educational Purchasing Council Insurance Program** - The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A five member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board. Charter Members consisted of six school districts in Southwest Ohio with combined students of 27,503, and combined values of \$490,259,626. During fiscal year 2004, this program was expanded to include 28 school districts with combined student enrollment of 49,000, and combined values of \$1,122,447,455.

**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003  
(Continued)**

**12. GROUP PURCHASING POOLS (Continued)**

The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to:

- Retain a portion of the predictable losses
- Transfer a portion of the catastrophic risk
- Broaden the districts insurance program coverages
- Budget for know maximum costs and
- Insulate the district from future market upheavals

The District paid \$34,514 to the group during fiscal year 2004 for property and casualty insurance. Cambridge Integrated Services Group, Inc. is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwest Ohio EPC Insurance Program and member schools.

**13. CONTINGENT LIABILITIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004 or 2003.

**B. State School Funding Decision**

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

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

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

FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor / Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	Not Available	10.550		\$15,180		\$15,180
National School Lunch Program	LLP4-02- 03	10.555	\$27,124		\$27,124	
National School Milk Program	02PU-02- 03	10.556	830		830	
Total U.S. Department of Agriculture - Nutrition Cluster			27,954	15,180	27,954	15,180
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title V-Part A Innovative Programs	C2-S1-03	84.298	499		508	
	C2-S1-04		2,602		2,474	
Total Title V-Part A Innovative Program			3,101		2,982	
Rural Education Assistance	RU-04	84.358	30,240		30,240	
Title I	CS-S1-03	84.010	10,117		11,494	
	C1-S1-04		46,699		47,150	
Total Title I			56,816		58,644	
Drug Free Schools	DR-S1-04	84.186	2,524		2,524	
Title II-D Technology Grant	TJS1-03	84.318	314		241	
	TJS1-04		1,345		1,260	
Total Title II-D Technology Grant			1,659		1,501	
Title II-A	TRS1-03	84.367	4,756		3,122	
	TRS1-04		16,233		16,393	
Total Title II-A			20,989		19,515	
<i>Passed Through Ohio School Facilities Commission</i>						
Federal Emergency Repair Program	PL-03	84.352	276,564		411,596	
Total U.S. Department of Education			391,893		527,002	
<b>Total Federal Assistance</b>			<b>\$419,847</b>	<b>\$15,180</b>	<b>\$554,956</b>	<b>\$15,180</b>

*The accompanying notes to the schedule of federal awards expenditures is 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, 2004**

**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, 2004, 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, Special Education, Part B – IDEA and Early Childhood Special Education, IDEA. The Shelby County Educational Service Center received \$69,311 and expended \$70,754 in federal funds for the District. This grant activity is reported as part of the Shelby County Education Service Center's federal schedule.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT 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, 2004 and 2003, and have issued our report thereon dated October 22, 2004, wherein we noted that the District implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. In addition, we were unable to support amounts recorded as food service revenues in the Enterprise Fund Type. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated October 22, 2004.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

**Internal Control Over Financial Reporting  
(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do believe the reportable condition described above is a material weakness. We also 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 October 22, 2004.

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



**Betty Montgomery**  
Auditor of State

October 22, 2004



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 the 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, 2004. 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, 2004. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated October 22, 2004.

**Internal Control Over Compliance**

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

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



**Betty Montgomery**  
Auditor of State

October 22, 2004



**FAIRLAWN LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 ' .505  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2003**

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

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(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):	Federal Emergency Repair Grant (CFDA #84.352)
(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**

**FINDING NUMBER – 2004-001**

**Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**Ohio Admin Code Section 117-2-03 (B)** requires the School District to prepare and file its annual financial report in accordance with generally accepted accounting principles (GAAP). However, for the fiscal year ended June 30, 2004, the District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District should prepare their financial statements in accordance with generally accepted accounting principles.

**FINDING NUMBER – 2004-002**

**Food Service – Documentation of Ala Carte Revenues**

The daily cafeteria reports used to prepare the School Lunch and Milk Program Daily Worksheet (CN7) lacked accompanying reconciliations of ala carte beginning inventory plus purchases to sales and ending inventory to provide evidence that ala carte sales revenue was recorded in its entirety. Ala carte sales were also excluded from cash register tapes used to track daily lunchroom revenues.

The lack of sufficient records and documents (evidential matter) to support the ala carte revenues could result in the manipulation of collections with the inability of school personnel to detect discrepancies or errors during the normal course of operations.

Reconciliations should be performed between the ala carte items inventory, ala carte items sold, and the respective receipts collected to support the accuracy of the collections. Documentation should also be maintained on ala carte items sold through the use of the cash register, and collections should be reconciled to inventory usage. Purchases and remaining inventory should also be reconciled to determine the accuracy of usage.

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

None



**Auditor of State  
Betty Montgomery**

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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  
DECEMBER 7, 2004**