

**FAIRBANKS LOCAL  
SCHOOL DISTRICT  
UNION COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004***

**AARON S. JOHNSON, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Education  
Fairbanks Local School District  
Milford Center, Ohio

We have reviewed the Independent Auditor's Report of the Fairbanks Local School District, Union County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fairbanks Local School District is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

April 4, 2005

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**FAIRBANKS LOCAL SCHOOL DISTRICT  
FRANKLIN COUNTY, OHIO**

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## Independent Auditor's Report

Board of Education  
Fairbanks Local School District  
11158 State Route 38  
Milford Center, OH 43045-9764

We have audited the accompanying financial statements of the governmental activities, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, Union County, (the “District”), as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, Union County, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the fiscal year ended June 30, 2004. As disclosed in Note 8.A., the District had a restatement of capital assets due to errors and omissions in prior years.

Independent Auditor's Report  
Fairbanks Local School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.  
February 14, 2005



**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

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

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$297,793. Net assets of governmental activities decreased \$291,084, which represents a 5.64% decrease from 2003. Net assets of business-type activities decreased \$6,709 from 2003.
- General revenues accounted for \$6,995,179 in revenue or 90.95% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$696,163 or 9.05% of total revenues of \$7,691,342.
- The District had \$7,982,426 in expenses related to governmental activities; only \$696,163 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,995,179 were not adequate to provide for the programs.
- The District's major governmental fund is the general fund. The general fund had \$6,967,283 in revenues and \$7,163,203 in expenditures and other financing uses. The general fund's fund balance decreased \$195,920 from \$1,614,046 to \$1,418,126.
- Net assets for the District's enterprise fund decreased \$6,709. The Fairbanks Elementary Extended Day Program (F.E.E.D. Program) non-major enterprise fund had \$37,473 in operating revenues and \$44,182 in operating expenses.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

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

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's F.E.E.D. Program operations are reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the District's major governmental fund and the analysis of the District's enterprise fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

***Proprietary Funds***

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-53 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

	<u>Governmental Activities</u>	<u>Net Assets</u>
	<u>2004</u>	<u>Business-Type Activities</u>
		<u>2004</u>
<b><u>Assets</u></b>		
Current assets	\$ 5,454,804	\$ 4,194
Capital assets	<u>4,020,536</u>	<u>-</u>
Total assets	<u>9,475,340</u>	<u>4,194</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,908,733	8,421
Long-term liabilities	<u>699,208</u>	<u>-</u>
Total liabilities	<u>4,607,941</u>	<u>8,421</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,716,060	-
Restricted	146,742	-
Unrestricted (deficit)	<u>1,004,597</u>	<u>(4,227)</u>
Total net assets	<u>\$ 4,867,399</u>	<u>\$ (4,227)</u>

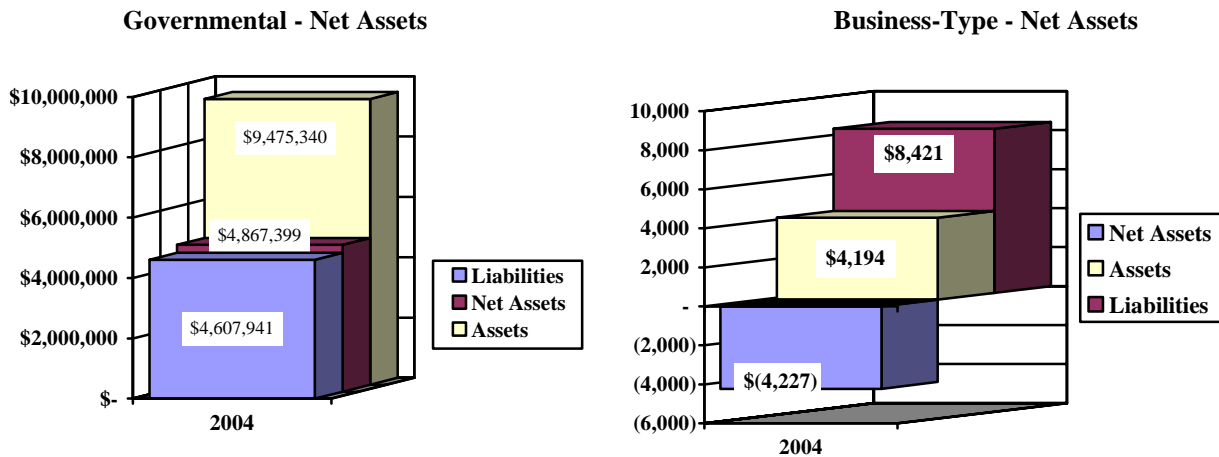
**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$4,863,172. \$4,867,399 of this total is in governmental activities, and a deficit of \$(4,227) is in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the District's net assets. At year-end, capital assets represented 42.43% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$3,716,060 in the governmental activities. These capital assets are used to provide services to students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$146,742, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,000,370 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for governmental activities and business-type activities fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Change in Net Assets**

	<b>Change in Net Assets</b>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>2004</u>	<u>2004</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 256,018	\$ 37,473
Operating grants and contributions	440,145	-
General revenues:		
Taxes	4,680,933	-
Grants and entitlements	2,202,319	-
Investment earnings	26,182	-
Other	<u>85,745</u>	<u>-</u>
Total revenues	<u>7,691,342</u>	<u>37,473</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	3,762,535	-
Special	552,353	-
Vocational	5,356	-
Support services:		
Pupil	341,897	-
Instructional staff	379,105	-
Board of Education	37,898	-
Administration	792,788	-
Fiscal	275,924	-
Operations and maintenance	691,338	-
Pupil transportation	573,798	-
Central	6,000	-
Food service	159,203	-
Operation of non-instructional services	165,245	-
Extracurricular activities	223,917	-
Interest and fiscal charges	15,069	-
F.E.E.D. Program	<u>-</u>	<u>44,182</u>
Total expenses	<u>7,982,426</u>	<u>44,182</u>
Changes in net assets	<u>\$ (291,084)</u>	<u>\$ (6,709)</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$291,084. Total governmental expenses of \$7,982,426 were offset by program revenues of \$696,163 and general revenues of \$6,995,179. Program revenues supported 8.72% of the total governmental expenses.

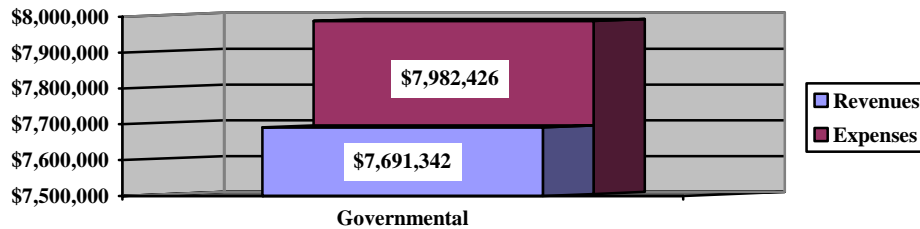
**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 89.49% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

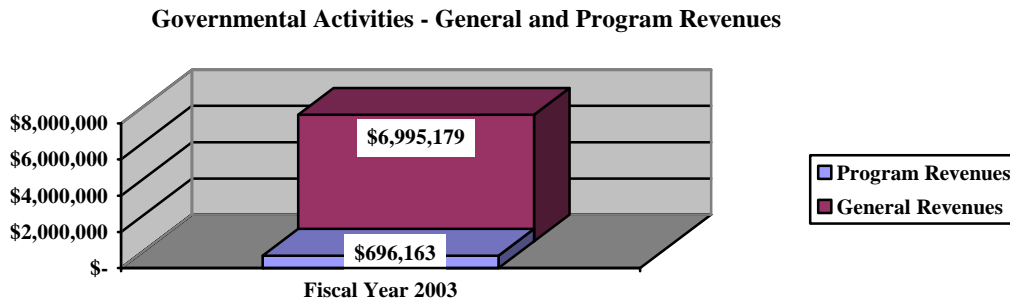
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses:		
Instruction:		
Regular	\$ 3,762,535	\$ 3,686,226
Special	552,353	509,226
Vocational	5,356	1,864
Support services:		
Pupil	341,897	271,478
Instructional staff	379,105	314,842
Board of Education	37,898	37,898
Administration	792,788	792,788
Fiscal	275,924	270,924
Operations and maintenance	691,338	691,338
Pupil transportation	573,798	540,827
Central	6,000	-
Food service	159,203	(6,289)
Operation of non-instructional services	165,245	(7,617)
Extracurricular activities	223,917	167,689
Interest and fiscal charges	15,069	15,069
<b>Total expenses</b>	<b><u>\$ 7,982,426</u></b>	<b><u>\$ 7,286,263</u></b>

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The dependence upon tax revenues during fiscal year 2004 for governmental activities is apparent, as 97.15% of 2004 instruction activities are supported through taxes and other general revenues. General revenue support for all governmental activities was 87.63% in 2004. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004.



**Business-Type Activities**

Business-type activities include the F.E.E.D. Program operation. This program had operating revenues of \$37,473 and operating expenses of \$44,182 for fiscal year 2004. The District's business activities receive no support from tax revenues.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$1,530,616, which is below last year's total of \$1,708,196. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	(Restated) Fund Balance June 30, 2003	Increase (Decrease)
General	\$ 1,418,126	\$ 1,614,046	\$ (195,920)
Other Governmental	112,490	94,150	18,340
<b>Total</b>	<b>\$ 1,530,616</b>	<b>\$ 1,708,196</b>	<b>\$ (177,580)</b>

**General Fund**

The District's general fund balance decreased \$195,920, due to expenditures increasing faster than revenues during 2004. The amount of tax revenue available for advance from 2002 to 2003 decreased dramatically, resulting in lower tax revenue in 2003 as compared to 2004. This resulted in an 8.72% increase in tax revenue during 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

	<u>2004</u>	<u>2003</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 4,663,246	\$ 4,289,222	8.72 %
Tuition	12,665	27,832	(54.49) %
Interest earnings	26,182	40,504	(35.36) %
Intergovernmental	2,202,319	2,265,124	(2.77) %
Other revenues	<u>62,871</u>	<u>37,167</u>	69.16 %
Total	<u>\$ 6,967,283</u>	<u>\$ 6,659,849</u>	4.62 %
<b><u>Expenditures</u></b>			
Instruction	\$ 4,064,063	\$ 3,827,192	6.19 %
Support services	2,902,030	2,866,176	1.25 %
Extracurricular activities	150,867	129,623	16.38 %
Debt service	<u>2,019</u>	<u>-</u>	100.00 %
Total	<u>\$ 7,118,979</u>	<u>\$ 6,822,991</u>	4.34 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2004, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$6,961,874, above original budgeted revenues estimates of \$6,654,439. Actual revenues and other financing sources for fiscal 2004 was \$6,961,874. This matches final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$8,150,939 were decreased to \$7,956,798 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$7,304,194, which is \$652,604 lower than fund appropriations.



**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Capital Assets and Debt Administration**

*Capital Assets*

During fiscal year 2004, the District changed its capitalization threshold. This resulted in a restatement of capital assets in the governmental activities (see Note 3.A. for detail). At the end of fiscal 2004, the District had \$4,020,536 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This total amount was reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 892,222	\$ 892,222
Land improvements	95,208	112,473
Building and improvements	2,028,818	2,124,477
Furniture and equipment	625,681	658,081
Vehicles	378,607	391,327
Total	\$ 4,020,536	\$ 4,178,580

The overall decrease in capital assets of \$158,044 is due to depreciation expense of \$283,932 and disposals of \$110,861 (net of accumulated depreciation) exceeding capital outlays of \$236,749 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2004 the District had \$304,476 in general obligation notes outstanding. Of this total, \$24,476 is due within one year and \$280,000 is due within greater than one year. The following table summarizes the notes outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
	General obligation notes	\$ 304,476
Total	\$ 304,476	\$ 330,429

At June 30, 2004 the District's overall legal debt margin was \$12,836,693 with an unvoted debt margin of \$142,630.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

**Current Financial Related Activities**

As for many school districts in the State of Ohio, Fairbanks Local School District entered into the beginning stages of an operational deficit spending cycle in fiscal year 2003-04. Economic factors, a lack of growth in state funding, as well as the cost of health insurance have played major roles in expenditures exceeding revenues in fiscal year 2004, decreasing the general fund balance \$195,920. Therefore, the District found it necessary to increase a planned renewal of a 2005 expiring emergency operating levy in November, 2004, from a then current 4.6 mills to 9.5 mills. This increase will add an additional \$699,000 to revenues for fiscal year 2005-06. The 5-year levy was supported and passed by the Fairbanks community. In addition, since the levy is effective starting 2005, revenues will also increase for the 2004-05 fiscal year. A potential deficit of over \$430,000 for fiscal year 2004-05 should be reduced to a level where revenues are more in line with expenditures. It is anticipated the passage of this levy will enable the district to operate and continue with the current programs through 2009.

As the current state funding system continues to be scrutinized and recommended for change, it will continue to be a challenge for the District to maintain a quality educational system in which the district is not faced with having to increase millage amounts. Although many factors are involved in the financial future of the District, it is the hope that an improved economy and state funding system will help alleviate the reliance on the local community.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Aaron S. Johnson, Treasurer, Fairbanks Local School District, 1158 State Route 38, Milford Center, Ohio 43045.

**BASIC  
FINANCIAL STATEMENTS**

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**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . .	\$ 1,647,607	\$ 4,194	\$ 1,651,801
Receivables:			
Taxes . . . . .	3,788,014	-	3,788,014
Accounts . . . . .	254	-	254
Intergovernmental . . . . .	17,764	-	17,764
Materials and supplies inventory . . . . .	1,165	-	1,165
Capital assets:			
Land . . . . .	892,222	-	892,222
Depreciable capital assets, net . . . . .	3,128,314	-	3,128,314
Capital assets, net. . . . .	<u>4,020,536</u>	<u>-</u>	<u>4,020,536</u>
 Total assets. . . . .	 <u>9,475,340</u>	 <u>4,194</u>	 <u>9,479,534</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	16,683	-	16,683
Accrued wages and benefits . . . . .	587,424	2,295	589,719
Pension obligation payable. . . . .	163,581	6,016	169,597
Intergovernmental payable . . . . .	25,861	110	25,971
Deferred revenue . . . . .	3,115,184	-	3,115,184
Long-term liabilities:			
Due within one year. . . . .	90,694	-	90,694
Due in more than one year. . . . .	608,514	-	608,514
 Total liabilities . . . . .	 <u>4,607,941</u>	 <u>8,421</u>	 <u>4,616,362</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,716,060	-	3,716,060
Restricted for:			
Other purposes . . . . .	146,742	-	146,742
Unrestricted (deficit) . . . . .	<u>1,004,597</u>	<u>(4,227)</u>	<u>1,000,370</u>
 Total net assets (deficit) . . . . .	 <u>\$ 4,867,399</u>	 <u>\$ (4,227)</u>	 <u>\$ 4,863,172</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 3,762,535	\$ 47,348	\$ 28,961
Special . . . . .	552,353	-	43,127
Vocational . . . . .	5,356	-	3,492
Support services:			
Pupil . . . . .	341,897	-	70,419
Instructional staff . . . . .	379,105	-	64,263
Board of education . . . . .	37,898	-	-
Administration . . . . .	792,788	-	-
Fiscal . . . . .	275,924	-	5,000
Operations and maintenance . . . . .	691,338	-	-
Pupil transportation . . . . .	573,798	32,449	522
Central . . . . .	6,000	-	6,000
Operation of non-instructional services:			
Food service operations . . . . .	159,203	119,993	45,499
Other non-instructional services . . . . .	165,245	-	172,862
Extracurricular activities . . . . .	223,917	56,228	-
Interest and fiscal charges . . . . .	15,069	-	-
Total governmental activities . . . . .	<u>7,982,426</u>	<u>256,018</u>	<u>440,145</u>
<b>Business-type activities:</b>			
Non-major fund . . . . .	<u>44,182</u>	<u>37,473</u>	<u>-</u>
Total business-type activities . . . . .	<u>44,182</u>	<u>37,473</u>	<u>-</u>
Totals . . . . .	<u>\$ 8,026,608</u>	<u>\$ 293,491</u>	<u>\$ 440,145</u>

**General Revenues:**

Property taxes levied for:

General purposes . . . . .	
School district income tax . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	

Change in net assets . . . . .

**Net assets at beginning of year . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (3,686,226)	\$ -	\$ (3,686,226)
(509,226)	-	(509,226)
(1,864)	-	(1,864)
(271,478)	-	(271,478)
(314,842)	-	(314,842)
(37,898)	-	(37,898)
(792,788)	-	(792,788)
(270,924)	-	(270,924)
(691,338)	-	(691,338)
(540,827)	-	(540,827)
-	-	-
6,289	-	6,289
7,617	-	7,617
(167,689)	-	(167,689)
(15,069)	-	(15,069)
<u>(7,286,263)</u>	<u>-</u>	<u>(7,286,263)</u>
-	(6,709)	(6,709)
-	(6,709)	(6,709)
<u>(7,286,263)</u>	<u>(6,709)</u>	<u>(7,292,972)</u>
3,784,232	-	3,784,232
896,701	-	896,701
2,202,319	-	2,202,319
26,182	-	26,182
85,745	-	85,745
<u>6,995,179</u>	<u>-</u>	<u>6,995,179</u>
(291,084)	(6,709)	(297,793)
<u>5,158,483</u>	<u>2,482</u>	<u>5,160,965</u>
<u>\$ 4,867,399</u>	<u>\$ (4,227)</u>	<u>\$ 4,863,172</u>

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,422,837	\$ 137,668	\$ 1,560,505
Receivables:			
Taxes . . . . .	3,788,014	-	3,788,014
Accounts . . . . .	254	-	254
Intergovernmental . . . . .	-	17,764	17,764
Interfund receivable . . . . .	13,296	-	13,296
Materials and supplies inventory . . . . .	-	1,165	1,165
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	87,102	-	87,102
Total assets . . . . .	\$ 5,311,503	\$ 156,597	\$ 5,468,100
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 13,047	\$ 3,636	\$ 16,683
Accrued wages and benefits . . . . .	573,358	14,066	587,424
Compensated absences payable . . . . .	21,088	-	21,088
Pension obligation payable . . . . .	101,290	1,536	102,826
Intergovernmental payable . . . . .	23,071	2,790	25,861
Interfund payable . . . . .	-	13,296	13,296
Deferred revenue . . . . .	3,161,523	8,783	3,170,306
Total liabilities . . . . .	3,893,377	44,107	3,937,484
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	68,342	14,214	82,556
Reserved for materials and supplies inventory . . . . .	-	1,165	1,165
Reserved for property tax unavailable for appropriation . . . . .	288,936	-	288,936
Reserved for BWC refunds . . . . .	87,102	-	87,102
Unreserved, undesignated, reported in:			
General fund . . . . .	973,746	-	973,746
Special revenue funds . . . . .	-	97,111	97,111
Total fund balances . . . . .	1,418,126	112,490	1,530,616
Total liabilities and fund balances . . . . .	\$ 5,311,503	\$ 156,597	\$ 5,468,100

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.



**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$ 1,530,616
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,020,536
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 46,339	
Intergovernmental revenues	8,783	
Total		55,122
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(373,644)	
Pension obligation payable	(60,755)	
General obligation notes payable	(304,476)	
Total		(738,875)
<b>Net assets of governmental activities</b>		<b>\$ 4,867,399</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 4,663,246	\$ -	\$ 4,663,246
Tuition. . . . .	12,665	-	12,665
Transportation fees . . . . .	32,449	-	32,449
Charges for services. . . . .	-	119,993	119,993
Earnings on investments. . . . .	26,182	-	26,182
Extracurricular. . . . .	-	56,228	56,228
Classroom materials and fees. . . . .	-	34,683	34,683
Other local revenues. . . . .	30,422	55,323	85,745
Other revenues. . . . .	-	5,000	5,000
Intergovernmental - State. . . . .	2,202,319	198,967	2,401,286
Intergovernmental - Federal . . . . .	-	227,395	227,395
Total revenues. . . . .	<u>6,967,283</u>	<u>697,589</u>	<u>7,664,872</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	3,554,743	73,060	3,627,803
Special. . . . .	509,320	42,105	551,425
Vocational. . . . .	-	5,112	5,112
Support services:			
Pupil. . . . .	246,283	90,661	336,944
Instructional staff . . . . .	306,744	60,853	367,597
Board of education . . . . .	37,509	-	37,509
Administration. . . . .	815,810	19,588	835,398
Fiscal . . . . .	267,725	5,034	272,759
Operations and maintenance. . . . .	668,583	-	668,583
Pupil transportation . . . . .	559,376	530	559,906
Central. . . . .	-	6,000	6,000
Food service operations . . . . .	-	151,835	151,835
Other non-instructional services. . . . .	-	163,452	163,452
Extracurricular activities. . . . .	150,867	64,232	215,099
Debt service:			
Principal retirement . . . . .	2,008	25,953	27,961
Interest and fiscal charges . . . . .	11	15,058	15,069
Total expenditures . . . . .	<u>7,118,979</u>	<u>723,473</u>	<u>7,842,452</u>
Excess of revenues under expenditures . . . . .	<u>(151,696)</u>	<u>(25,884)</u>	<u>(177,580)</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	44,224	44,224
Transfers (out). . . . .	(44,224)	-	(44,224)
Total other financing sources (uses) . . . . .	<u>(44,224)</u>	<u>44,224</u>	<u>-</u>
Net change in fund balances . . . . .	(195,920)	18,340	(177,580)
<b>Fund balances at beginning of year (restated) . . . . .</b>			
	<u>1,614,046</u>	<u>94,150</u>	<u>1,708,196</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 1,418,126</u>	<u>\$ 112,490</u>	<u>\$ 1,530,616</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	(177,580)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$283,932) exceeds capital outlays (\$236,749) in the current period.		(47,183)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(110,861)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		26,470
Repayment of notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		27,961
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(9,891)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(291,084)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 4,366,838	\$ 4,568,587	\$ 4,568,587	\$ -
Tuition. . . . .	25,868	27,063	27,063	-
Earnings on investments. . . . .	26,242	27,454	27,454	-
Transportation fees . . . . .	31,016	32,449	32,449	-
Other local revenues . . . . .	30,070	31,459	31,459	-
Intergovernmental - State . . . . .	2,105,065	2,202,319	2,202,319	-
Total revenues . . . . .	<u>6,585,099</u>	<u>6,889,331</u>	<u>6,889,331</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,903,729	3,810,749	3,498,197	312,552
Special. . . . .	497,635	485,782	445,939	39,843
Support services:				
Pupil. . . . .	277,333	270,728	248,523	22,205
Instructional staff . . . . .	353,447	345,029	316,730	28,299
Board of education . . . . .	54,481	53,183	48,821	4,362
Administration. . . . .	935,879	913,588	838,657	74,931
Fiscal . . . . .	311,306	303,892	278,967	24,925
Operations and maintenance. . . . .	778,663	760,117	697,773	62,344
Pupil transportation . . . . .	723,024	705,803	647,914	57,889
Extracurricular activities. . . . .	170,875	166,806	153,124	13,682
Total expenditures . . . . .	<u>8,006,372</u>	<u>7,815,677</u>	<u>7,174,645</u>	<u>641,032</u>
Excess of revenues over (under) expenditures. . . . .	<u>(1,421,273)</u>	<u>(926,346)</u>	<u>(285,314)</u>	<u>641,032</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	199	208	209	1
Transfers in. . . . .	64,902	67,900	67,900	-
Transfers (out) . . . . .	(129,730)	(126,640)	(116,253)	10,387
Advances in. . . . .	4,239	4,435	4,434	(1)
Advances (out) . . . . .	(14,837)	(14,481)	(13,296)	1,185
Total other financing sources (uses) . . . . .	<u>(75,227)</u>	<u>(68,578)</u>	<u>(57,006)</u>	<u>11,572</u>
Net change in fund balance . . . . .	(1,496,500)	(994,924)	(342,320)	652,604
<b>Fund balance at beginning of year. . . . .</b>	1,649,069	1,649,069	1,649,069	-
<b>Prior year encumbrances appropriated . . . . .</b>	122,003	122,003	122,003	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 274,572</u>	<u>\$ 776,148</u>	<u>\$ 1,428,752</u>	<u>\$ 652,604</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

	<b>Non-Major Enterprise Fund</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 4,194
Total assets . . . . .	4,194
<b>Liabilities:</b>	
Current liabilities:	
Accrued wages and benefits . . . . .	2,295
Pension obligation payable . . . . .	6,016
Intergovernmental payable . . . . .	110
Total liabilities . . . . .	8,421
<b>Net assets:</b>	
Unrestricted (deficit) . . . . .	(4,227)
Total net assets . . . . .	\$ (4,227)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Non-Major Enterprise Fund</b>
<b>Operating revenues:</b>	
Tuition and fees . . . . .	\$ 37,473
Total operating revenues . . . . .	37,473
<b>Operating expenses:</b>	
Personal services. . . . .	38,836
Purchased services. . . . .	3,406
Materials and supplies . . . . .	1,940
Total operating expenses . . . . .	44,182
Change in net assets/operating income. . . . .	(6,709)
<b>Net assets at beginning of year . . . . .</b>	<b>2,482</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ (4,227)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		<u>Non-Major Enterprise Fund</u>
<b>Cash flows from operating activities:</b>		
Cash received from tuition and fees. . . . .	\$	37,473
Cash payments for personal services . . . . .		(36,668)
Cash payments for purchased services . . . . .		(660)
Cash payments for materials and supplies. . . . .		<u>(2,223)</u>
 Net cash used in operating activities . . . . .		 <u>(2,078)</u>
 Net decrease in cash and cash equivalents . . . . .		 (2,078)
 <b>Cash and cash equivalents at beginning of year . . .</b>		 <u>6,272</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b><u><u>4,194</u></u></b>
 <b>Reconciliation of operating income to net cash used in operating activities:</b>		
Operating income . . . . .	\$	(6,709)
Changes in liabilities:		
Decrease in accounts payable . . . . .		(283)
Decrease in intergovernmental payable . . . . .		(1,607)
Increase in accrued wages and benefits. . . . .		505
Increase in pension obligation payable . . . . .		<u>6,016</u>
 Net cash used in operating activities . . . . .	 \$	 <u><u>(2,078)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 66,029	\$ 31,192
Total assets. . . . .	66,029	\$ 31,192
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 31,192
Total liabilities . . . . .	-	\$ 31,192
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	66,029	
Total net assets . . . . .	\$ 66,029	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.



**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private-Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	\$ 586
Total additions. . . . .	586
<b>Deductions:</b>	
Scholarships awarded . . . . .	95
Change in net assets . . . . .	491
<b>Net assets at beginning of year . . . . .</b>	<b>65,538</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 66,029</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Fairbanks 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 is a local district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District ranks 513<sup>th</sup> largest by enrollment among the 613 public school districts in the state. The District employs 64 certified employees and 44 non-certificated employees to provide services to approximately 928 students. The District cooperates with the Delaware-Union County Educational Service Center, a separate entity, for curricular services.

The District provides regular and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 its governmental and business-type activity and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise fund, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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 services, and student related activities of the District.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) 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 debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

*JOINTLY GOVERNED ORGANIZATIONS*

Metropolitan Educational Council (MEC)

The MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computers services to the District.

Central Ohio Joint Vocational School District (COJVS)

The COJVS is a jointly governed organization of the District. The District's Board of Education appoints one member to the seven member Board of Education of COJVS. However, the financial statements of the COJVS are not included within the District's reporting entity as the District can not impose its will and there is no financial benefit, financial burden relationship or related party transactions between the District and COJVS.

*INSURANCE PURCHASING POOLS*

Ohio Association of School Business Officials 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 Ohio Association of School Business Officials Workers' Compensation Group Rating GRP (the "GRP") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool. Refer to Note 11.B. for more detail.

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

*GOVERNMENTAL FUNDS*

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's only proprietary fund:

Non-Major Enterprise Fund - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body 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 (b) where the governing body has 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. The District has one enterprise fund to account for the Fairbanks Elementary Extended Day Program (F.E.E.D. Program). This enterprise fund is considered a nonmajor enterprise fund.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus it does not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities 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 governmental funds.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15, the Superintendent and Treasury 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the County Budget Commission for tax rate determination. Union County Auditors office waived this requirement for fiscal 2004.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. 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 as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations included were legally enacted by the Board during fiscal 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements may not legally exceed budgeted appropriations at the fund level.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to certificates of deposits, a U.S. Government money market fund, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2004 amounted to \$26,182 which includes \$2,800 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture/equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The District has also recorded a liability for all employees with at least 20 years of service.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property taxes unavailable for appropriation and Bureau of Workers Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

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

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

**N. Parochial Schools**

Within the District boundaries, St. John Lutheran School and St. Paul Lutheran School operate as private schools. Current state legislation provides funding to the parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the District.

**O. Estimates**

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization. See Note 16 for details.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for the F.E.E.D. Program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**R. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

***Governmental Activities - Fund Reclassification and Restatement of Fund Balance*** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance			
June 30, 2003	\$ 1,551,775	\$ 71,742	\$ 1,623,517
Fund reclassifications	68,632	22,408	91,040
Implementation of GASB			
Interpretation No. 6	(6,361)	-	(6,361)
Adjusted fund balance,			
June 30, 2003	\$ 1,614,046	\$ 94,150	\$ 1,708,196

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The transition from governmental fund balances to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2003	\$ 1,708,196
GASB 34 adjustments:	
Long-term (deferred) assets	28,652
Capital assets	4,178,580
Long-term liabilities	(756,945)
Governmental activities net assets, June 30, 2003	<u>\$ 5,158,483</u>

***Business-Type Activities - Fund Reclassification and Restatement of Fund Balance*** – Certain funds previously reported as enterprise funds are now reported as other nonmajor governmental funds to properly reflect the intended purpose of the funds.

	<u>Enterprise</u>
Fund equity as previously reported	\$ 30,578
Fund reclassification	(28,096)
Restated net assets as of July 1, 2003	<u>\$ 2,482</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	
Management Information System	\$ 34
Summer Intervention	4,866
Special Education	134
Title I	992
Title VI	199
Improving Teacher Quality	825
F.E.E.D. Program	4,227

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

State statute classifies 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 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 finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and



**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

8. Under limited circumstances, corporate debt instrument 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.

*Cash on Hand:* At fiscal year-end, the District had \$2,245 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 following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

*Deposits:* At year-end, the carrying amount of the District's deposits was \$684,133 and the bank balance was \$705,052. Of the bank balance:

1. \$163,943 was covered by federal deposit insurance deposited with the District; and
2. \$541,109 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal deposit insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

*Investments:* Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. 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, but not in the District's name. Investments in STAR Ohio and the U.S. Government money market mutual fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The following is a breakdown of the District's investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment in U.S. Government money market mutual fund	\$ 299,026	\$ 299,026
Investment in STAR Ohio	<u>763,618</u>	<u>763,618</u>
Total investments	<u>\$ 1,062,644</u>	<u>\$ 1,062,644</u>

The federal agency securities have maturity dates ranging from September, 2003 through November, 2005.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,749,022	\$ -
Investments of the cash management pool:		
U.S. Government money market mutual fund	(299,026)	299,026
Investments in STAR Ohio	(763,618)	763,618
Cash on hand	<u>(2,245)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 684,133</u>	<u>\$ 1,062,644</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 13,296

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 44,224

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - PROPERTY TAXES**

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

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

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

The District receives property taxes from Union 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, 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.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The amount available as an advance at June 30, 2004 was \$288,936 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$213,982 in the general fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
	Agricultural/Residential and Other Real Estate	\$ 118,371,530	84.80	\$ 122,601,730
Public Utility Personal	6,052,700	4.34	5,657,740	3.96
Tangible Personal Property	15,156,800	10.86	14,670,450	10.26
Total	\$ 139,581,030	100.00	\$ 142,929,920	100.00
Tax rate per \$1,000 of assessed valuation		\$36.80		\$36.80

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities**

Taxes	\$ 3,788,014
Accounts	254
Intergovernmental	17,764
Total receivables	\$ 3,806,032

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions in prior years:

<b>Governmental Activities</b>	Balance		Restated Balance
	<u>June 30, 2003</u>	<u>Adjustments</u>	<u>June 30, 2003</u>
Capital assets, not being depreciated:			
Land	\$ 892,222	\$ -	\$ 892,222
Total capital assets, not being depreciated	<u>892,222</u>	<u>-</u>	<u>892,222</u>
Capital assets, being depreciated:			
Land improvements	141,151	(6,164)	134,987
Building/improvements	4,409,147	(145,093)	4,264,054
Furniture/equipment	1,448,976	599,020	2,047,996
Vehicles	<u>862,165</u>	<u>-</u>	<u>862,165</u>
Total capital assets, being depreciated	<u>6,861,439</u>	<u>447,763</u>	<u>7,309,202</u>
Less: accumulated depreciation:	<u>-</u>	<u>(4,022,844)</u>	<u>(4,022,844)</u>
Governmental activities capital assets, net	<u>\$ 7,753,661</u>	<u>\$ (3,575,081)</u>	<u>\$ 4,178,580</u>

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

<b>Governmental Activities</b>	Restated Balance			Balance
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 892,222	\$ -	\$ -	\$ 892,222
Total capital assets, not being depreciated	<u>892,222</u>	<u>-</u>	<u>-</u>	<u>892,222</u>
Capital assets, being depreciated:				
Land improvements	134,987	7,250	-	142,237
Building/improvements	4,264,054	4,967	-	4,269,021
Furniture/equipment	2,047,996	114,922	(54,275)	2,108,643
Vehicles	<u>862,165</u>	<u>109,610</u>	<u>(57,243)</u>	<u>914,532</u>
Total capital assets, being depreciated	<u>7,309,202</u>	<u>236,749</u>	<u>(111,518)</u>	<u>7,434,433</u>
Less: accumulated depreciation				
Land improvements	(22,514)	(24,515)	-	(47,029)
Building/improvements	(2,139,577)	(100,626)	-	(2,240,203)
Furniture/equipment	(1,389,915)	(93,704)	657	(1,482,962)
Vehicles	<u>(470,838)</u>	<u>(65,087)</u>	<u>-</u>	<u>(535,925)</u>
Total accumulated depreciation	<u>(4,022,844)</u>	<u>(283,932)</u>	<u>657</u>	<u>(4,306,119)</u>
Governmental activities capital assets, net	<u>\$ 4,178,580</u>	<u>\$ (47,183)</u>	<u>\$ (110,861)</u>	<u>\$ 4,020,536</u>

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 144,092
Special	267
Vocational	244
Support Services:	
Pupil	2,080
Instructional staff	5,614
Board of education	389
Administration	3,435
Fiscal	1,096
Operations and maintenance of plant	51,290
Pupil transportation	61,432
Food service operations	5,165
Extracurricular	<u>8,828</u>
Total depreciation expense	<u>\$ 283,932</u>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of computers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of computers have been capitalized in the amount of \$72,684. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. The final principal and interest payments of \$2,008 and \$11, respectively, were made during fiscal 2004. These amounts are reported as debt service payments of the general fund.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. The District has issued energy conservation notes and an asbestos loan to provide for energy improvements to various District buildings. The primary source of repayment of these obligations is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

The following is a description of the District's asbestos note and energy conservation notes outstanding as of June 30, 2004:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding 7/1/03</u>	<u>Issued in 2004</u>	<u>Retired in 2004</u>	<u>Outstanding 6/30/04</u>
Asbestos note	0.00%	3/16/87	12/31/04	\$ 10,429	\$ -	\$ (6,953)	\$ 3,476
Energy conservation note	4.80%	6/1/99	12/01/13	<u>320,000</u>	<u>-</u>	<u>(19,000)</u>	<u>301,000</u>
Total				<u>\$ 330,429</u>	<u>\$ -</u>	<u>\$ (25,953)</u>	<u>\$ 304,476</u>

- B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation notes:

<u>Fiscal Year Ending</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2005	\$ 24,476	\$ 14,089	\$ 38,565
2006	23,000	13,022	36,022
2007	26,000	11,834	37,834
2008	28,000	10,525	38,525
2009	29,000	9,143	38,143
2010 - 2014	<u>174,000</u>	<u>22,164</u>	<u>196,164</u>
Total	<u>\$ 304,476</u>	<u>\$ 80,777</u>	<u>\$ 385,253</u>

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

C. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$17,416 from \$359,706 to \$377,122 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$57,752 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$40,336 from \$749,895 to \$709,559. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance			Balance	Amount
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Due in One Year</u>
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 377,122	\$ 34,337	\$ (16,727)	\$ 394,732	\$ 66,218
General obligation notes payable	330,429	-	(25,953)	304,476	24,476
Capital lease obligation	<u>2,008</u>	<u>-</u>	<u>(2,008)</u>	<u>-</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 709,559</u>	<u>\$ 34,337</u>	<u>\$ (44,688)</u>	<u>\$ 699,208</u>	<u>\$ 90,694</u>

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$12,836,693 and an unvoted debt margin of \$142,630.

**NOTE 11 - 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. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Employee benefits liability is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$13,614,400. Property insurance also includes \$300,000 additional expense coverage.



**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 11 - RISK MANAGEMENT - (Continued)**

Settled claims have not exceeded commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

**B. Worker's Compensation**

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. The District was placed in Group II for the 2004 OSBA program. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Medical Insurance**

The District has established limited risk health, dental and life insurance programs for its employees. The District is a member of the Champaign, Delaware, Marion and Union County Insurance Consortium.

CORE Source, a third party administrator, services all claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$150,000 and aggregate claims in excess of \$4,292,738.

**NOTE 12 - 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 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 State Statute 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, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$95,848, \$53,889, and \$51,567, respectively; 49.71% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$48,198 represents the unpaid contribution for fiscal year 2004.

**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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$447,785, \$463,992, and \$432,504, respectively, 83.58% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$73,517 represents the unpaid contribution for fiscal year 2004.

**C. Social Security System**

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

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 pay a portion of the 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$34,445 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$69,444 during the 2004 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (342,320)
Net adjustment for revenue accruals	77,952
Net adjustment for expenditure accruals	(25,521)
Net adjustment for other sources/uses	12,782
Adjustment for encumbrances	<u>81,187</u>
GAAP basis	<u>\$ (195,920)</u>

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. 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 on its future state funding and its financial operations.

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	(Restated) Instructional <u>Materials</u>	Capital <u>Maintenance</u>	BWC <u>Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ (186,320)	\$ -	\$ 87,102
Current year set-aside requirement	127,090	127,090	-
Qualifying disbursements	<u>(274,130)</u>	<u>(153,202)</u>	<u>-</u>
Total	<u>\$ (333,360)</u>	<u>\$ (26,112)</u>	<u>\$ 87,102</u>
Balance carried forward to FY 2005	<u>\$ (333,360)</u>	<u>\$ -</u>	<u>\$ 87,102</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the instructional materials and capital maintenance reserve. The amounts for textbook acquisition has been restated as of July 1, 2003 and at the discretion of the District, excess disbursements will be used to reduce the set-aside requirement of future years. Capital maintenance excess disbursements are not allowed to be carried forward and thus negative amounts are not presented as being carried forward to the next fiscal year.

**FAIRBANKS LOCAL SCHOOL DISTRICT  
UNION COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - STATUTORY RESERVES - (Continued)**

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	<u>\$ 87,102</u>
Total restricted assets	<u><u>\$ 87,102</u></u>

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Education  
Fairbanks Local School District  
11158 State Route 38  
Milford Center, OH 43045-9764

We have audited the financial statements of the governmental activities, the business-type activities, its major fund, and the aggregate remaining fund information of Fairbanks Local School District, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Fairbanks Local School District’s basic financial statements and have issued our report thereon dated February 14, 2005. During the fiscal year ended June 30, 2004, the Fairbanks Local School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, the District had a restatement of capital assets due to errors and omissions in prior years as disclosed in Note 8A. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fairbanks Local School District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 we have reported to the management of Fairbanks Local School District in a separate letter dated February 14, 2005.

Board of Education  
Fairbanks Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairbanks Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could 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 is required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Fairbanks Local School District in a separate letter dated February 14, 2005.

This report is intended solely for the information of the Board and management of the Fairbanks Local School District, and is not intended to be and should not be used by anyone other than these specified parties.



Trimble, Julian & Grube, Inc.  
February 14, 2005





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**FAIRBANKS LOCAL SCHOOL DISTRICT**

**UNION 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  
APRIL 14, 2005**