



**Auditor of State
Betty Montgomery**

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types For the Fiscal Year Ended June 30, 2004	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes In Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Funds - For the Fiscal Year Ended June 30, 2004	4
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2004	5
Combined Statement of Disbursements and Encumbrances Compared With Expenditure Authority - For the Fiscal Year Ended June 30, 2004	6
Notes to the Financial Statements – For the Fiscal Year Ended June 30, 2004	7
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types For the Fiscal Year Ended June 30, 2003	23
Combined Statement of Cash Receipts, Cash Disbursements and Changes In Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Funds – For the Fiscal Year Ended June 30, 2003	24
Combined Statement of Receipts - Budget and Actual For the Fiscal Year Ended June 30, 2003	25
Combined Statement of Disbursements and Encumbrances Compared With Expenditure Authority - For the Fiscal Year Ended June 30, 2003	26
Notes to the Financial Statements – For the Fiscal Year Ended June 30, 2003	27
Independent Accountants' Report on Compliance and On Internal Control Required by <i>Government Auditing Standards</i>	43

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fort Loramie Local School District
Shelby County
575 Greenback Road
P.O. Box 26
Fort Loramie, Ohio 45845

To the Board of Education:

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the District, as of June 30, 2004 and June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 17, 2004

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
Cash Receipts				
Taxes	\$1,958,314		\$492,825	\$2,451,139
Intergovernmental	3,186,532	\$180,506	61,566	\$17,050
Tuition and Fees	19,667	420		20,087
Earnings on Investments	16,004	83		1,336
Extracurricular Activities		135,155		135,155
Classroom Materials & Fees	64,309	2,714		67,023
Miscellaneous	41,107	55,113		96,220
Total Cash Receipts	5,285,933	373,991	554,391	18,386
Cash Disbursements				
Current:				
Instruction:				
Regular	2,887,941	52,746		14,800
Special	282,098	32,573		2,955,487
Vocational	58,502			314,671
Other	47,647			58,502
Support Services:				
Pupils	340,203	161,896		2,171
Instruction	274,423	23,231		840
Board of Education	23,017			23,017
Administration	491,575	18,338		509,913
Fiscal	144,471		10,140	154,611
Business	636			636
Operation and Maintenance	499,498			1,653
Transportation	201,509			201,509
Central Services	40,485	9,925		50,410
Non-Instructional Services		700		700
Extracurricular Activities	204,189	145,997		350,186
Capital Outlay	27,960			33,174
Debt Service			412,015	412,015
Total Cash Disbursements	5,524,154	445,406	422,155	52,638
Cash Receipts Over(Under) Cash Disbursements	(238,221)	(71,415)	132,236	(34,252)
Other Sources (Uses):				
Sale of Assets	5,670			5,670
Refund of Prior Year Expenditures	575	3,341		3,916
Advances In	8,314	8,694		17,008
Advances Out	(8,694)	(8,314)		(17,008)
Operating Transfers In		10,626		10,626
Operating Transfers Out	(10,626)			(10,626)
Refund of Prior Year Receipts		(21)		(49)
Total Other Sources (Uses)	(4,761)	14,326		(49)
Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	(242,982)	(57,089)	132,236	(34,301)
Fund Cash Balances at Beginning of Year, Restated	981,524	162,953	245,799	147,718
Fund Cash Balances at End of Year	\$738,542	\$105,864	\$378,035	\$113,417
	\$1,335,858			

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Receipts			
Food Services	\$201,675		\$201,675
Extracurricular Activities		\$82,194	82,194
Classroom Materials and Fees		613	613
	<hr/>	<hr/>	<hr/>
Total Operating Receipts	201,675	82,807	284,482
Operating Disbursements			
Salaries	84,982		84,982
Retirement & Insurances	44,855		44,855
Purchased Services	15,576	759	16,335
Materials and Supplies	76,391	321	76,712
Capital Outlay	11,324		11,324
Other Objects	463	81,337	81,800
	<hr/>	<hr/>	<hr/>
Total Operating Disbursements	233,591	82,417	316,008
Operating Income (Loss)	(31,916)	390	(31,526)
Non-Operating Receipts(Disbursements)			
Federal and State Subsidies	27,732		27,732
Earnings on Investments	231	507	738
Miscellaneous	7,500	6,046	13,546
Refund of Prior Years Expenditures	5		5
	<hr/>	<hr/>	<hr/>
Total Non-Operating Receipts and (Disbursements)	35,468	6,553	42,021
Net Income (Loss)	3,552	6,943	10,495
Fund Cash Balance at Beginning of Year	26,179	45,150	71,329
	<hr/>	<hr/>	<hr/>
Fund Cash Balance at End of Year	<u>\$29,731</u>	<u>\$52,093</u>	<u>\$81,824</u>

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$5,233,429	\$5,292,178	\$58,749
Special Revenue Funds	385,438	387,958	2,520
Debt Service Funds	542,274	554,391	12,117
Capital Project Funds	18,304	18,386	82
Proprietary:			
Enterprise Funds	233,500	237,143	3,643
Total (Memorandum Only)	\$6,412,945	\$6,490,056	\$77,111

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

FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY

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

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding At 6/30/04	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$42,145	\$5,663,577	\$5,705,722	\$5,534,780	\$113,901	\$5,648,681	\$57,041
Special Revenue Funds	68,770	427,745	496,515	445,427	24,715	470,142	26,373
Debt Service Funds		422,165	422,165	422,155		422,155	10
Capital Project Funds	9,630	105,410	115,040	52,687		52,687	62,353
Proprietary:							
Enterprise Funds	671	249,743	250,414	233,591	398	233,989	16,425
Total (Memorandum Only)	<u>\$121,216</u>	<u>\$6,868,640</u>	<u>\$6,989,856</u>	<u>\$6,688,640</u>	<u>\$139,014</u>	<u>\$6,827,654</u>	<u>\$162,202</u>

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is located in Shelby County. The District is staffed by 32 non-certificated employees, 53 certificated full-time teaching personnel and 5 administrative employees who provide services to 824 students and other community members. The District currently operates two instructional/support buildings.

A. Reporting Entity:

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District participates in five jointly governed organizations and three insurance purchasing pools. These organizations include the Shelby County Local Professional Development Committee, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, the West Central Ohio Special Education Regional Resource Center, the Western Ohio Computer Organization, the Ohio Association of School Business Officials' Workers' Compensation Group Rating Plan, the Shelby County Schools Consortium and the Ohio School Insurance Program. These organizations are discussed in Note 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

As required by Ohio Administrative Code Section 117-2-03 (B), the District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the District chooses to prepare (for audit purposes) its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

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

1. Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required by law to be accounted for in another fund.

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

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

2. Proprietary Fund Type:

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include agency funds.

C. Budgetary Process

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

1. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year.

Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003, unencumbered fund balances. However, those fund balances are available for appropriations.

2. Appropriations

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

3. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

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

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

E. Unpaid Vacation and Sick Leave

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

F. Property, Plant and Equipment

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

G. Total Columns on Financial Statements

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

3. RESTATEMENT OF FUND BALANCES

During fiscal year 2004, in accordance with the Uniform School Accounting System, Fund 458 for IVDL (Interactive Video Distance Learning) grant funds, was reclassified from a Capital Project Fund Type to a Special Revenue Fund Type. This change had the following effect on fund balances as previously reported:

	Special Revenue	Capital Projects
Cash Fund Balance - June 30, 2003	\$161,753	\$148,918
Fund 458 Reclassification	1,200	(1,200)
Restated Fund Balance - July 1, 2003	\$162,953	\$147,718

4. DEPOSITS AND INVESTMENTS

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Cash on Hand: At fiscal year end, the District had \$130 in undeposited cash on hand.

At fiscal year end, the District had \$11,296 in cash reported in the special revenue funds that is held by the Shelby County Educational Service Center, which is the fiscal agent for several Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The risk classifications for the Shelby County Educational Service Center as a whole can be obtained by writing to Cathy Doseck, who serves as Treasurer, at 129 East Court Street, Sidney, Ohio 45365.

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,406,256 and the bank balance was \$1,508,937. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,308,937 was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District's fiscal year runs from July through June. First half tax 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

5. PROPERTY TAXES (Continued)

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 Shelby and Darke Counties. The County Auditors periodically advance 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.

The assessed values upon which 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	\$60,266,010	88.4%	\$62,353,240	89.0%
Public Utility – Real	2,202,240	3.2%	2,181,720	3.1%
Tangible Personal Property	5,711,890	8.4%	5,524,961	7.9%
Total Assessed Value	<u>\$68,180,140</u>	<u>100.00%</u>	<u>\$70,059,921</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.90		\$44.90	

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

6. INCOME TAX

The District levies a voted tax of 3/4 percent for general operations on the income of residents and estates. Initially, the tax was effective on January 1, 1995 through December 1999. In May 1999 and March 2004, the tax had been renewed for additional five-year periods, effective through December 31, 2009. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

7. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted for the following insurance coverage:

Indiana Insurance	
Building and Contents - Replacement cost (\$2,500 deductible - 90% co-insurance)	\$16,114,400
Inland Marine Coverage (\$500 deductible)	953,248
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Medical Payments per person	5,000
Ohio School Plan	
General Liability	
Per occurrence	\$3,000,000
Annual Aggregate	\$5,000,000

The District has not incurred any claims greater than insured coverages for the last three years and there has been no significant reduction in coverages from the prior year.

For fiscal year 2004, the District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS

A. 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 to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

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

The District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002, was \$374,076, \$356,125, and \$248,283, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal year 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$488 made by the District and \$536 made by plan members.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available 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 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$67,746, \$56,376, and \$35,707, respectively.

C. Social Security System

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

9. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$28,829 for fiscal year 2004.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

9. POST-EMPLOYMENT BENEFITS (Continued)

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

The total amount of this surcharge for each employer is capped at a maximum of 2 percent of the district's annual SERS payroll. Should the total surcharge of all employers exceed 1.5 percent of the statewide SERS payroll, all employers' surcharge will be reduced proportionately. For fiscal year 2004, the minimum pay was established at \$25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$49,467.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

The District participates in the Shelby County Insurance Consortium, a public entity risk-purchasing group. The group includes seven local school districts and the Shelby County Educational Service Center. The consortium has contracted with Community Insurance Corporation to provide employee medical/surgical and dental coverages. Rates are set annually by the insurance carrier. The District pays monthly premiums to the insurance carrier. The employees share the cost of the monthly medical/surgical premium with the Board. Vision insurance is provided to all eligible employees, under a policy with Vision Plan of America. Term Life insurance is provided to all eligible employees, under a policy with Medical Life Insurance Company.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

11. DEBT OBLIGATIONS

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

	Interest Rate	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04
General Obligation Bonds					
1998 School Facilities Issue					
Serial and Term Bonds	3.7 - 5.00%	\$5,400,000	\$0	\$155,000	\$5,245,000
Capital Appreciation Bonds	16.25 -19%	109,945	0	0	109,945
Accretion		142,967	46,675		189,642
Total General Obligation Bonds		<u>\$5,652,912</u>	<u>\$46,675</u>	<u>\$155,000</u>	<u>\$5,544,587</u>

1998 School Facilities Issue - On July 28, 1998, the Board of Education issued \$6,049,946 in voted general obligation bonds for the purpose of constructing, improving and making additions to school buildings and related site development under the special needs provisions of Section 133.06(E) Revised Code. The bond issue included serial, term and capital appreciation bonds in the amount of \$3,470,000; \$2,970,000; and \$109,945; respectively. The bonds will be retired with a voted property tax levy received in the debt service fund.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to commence on December 1, 2016, (with the balance of \$270,000 to be paid at stated maturity on December 1, 2018) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$245,000
2017	255,000

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to commence on December 1 2019, (with the balance of \$400,000 to be paid at stated maturity on December 1, 2026) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2019	\$285,000
2020	295,000
2021	310,000
2022	325,000
2023	345,000
2024	360,000
2025	380,000

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

11. DEBT OBLIGATIONS (Continued)

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial bonds maturing after December 1, 2009 are subject to optional redemption, in whole or in part of any date in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000 at the option of the District on or after December 1, 2009 at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth below, plus accrued interest to the redemption date:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5%
December 1, 2010 and thereafter	100.0%

The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$525,000. For fiscal year 2004, \$46,675 was accredited for a total bond value of \$299,587.

The District's overall debt margin was \$1,142,459 with an unvoted debt margin of \$70,100 at June 30, 2004.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 165,000	\$ 250,254	\$ 415,254
2006	170,000	311,343	481,343
2007	38,500	376,855	415,355
2008	36,666	378,715	415,381
2009	34,780	309,547	344,327
2010 – 2014	980,000	1,089,500	2,069,500
2015 – 2019	1,230,000	829,184	2,059,184
2020 – 2024	1,560,000	487,500	2,047,500
2025 – 2027	1,140,000	87,500	1,227,500
	\$5,354,946	\$4,120,397	\$9,475,344

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - The District is a participant in the Western Ohio Computer Organization, which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. WOCO was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS(Continued)

The superintendent of each member district is seated on the assembly which elects a Board of Directors for the consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of eleven members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Lewis Ivey, Jr., who serves as its administrator, 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council (SOEPC) - The Southwestern Ohio Educational Purchasing Council (SOEPC) was established in 1986 to foster cooperation among educational entities located in southwestern Ohio. The SOEPC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities.

The SOEPC is governed by an elected Board consisting of 10 representatives of the educational entities and the Montgomery County Educational Service Center superintendent. The Board, except for the Superintendent of the Montgomery County Educational Service Center, is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Ohio Educational Purchasing Council, 1831 Harshman Road, Dayton, Ohio 45424.

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from some of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Upper Valley Joint Vocational School, William Stump, Treasurer, at 8811 Career Drive, Piqua, Ohio 45356.

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

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

Shelby County Local Professional Development Committee - The District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS(Continued)

The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

B. Insurance Purchasing Pools

Shelby County Schools Consortium - The Shelby County Schools Consortium (the Consortium) is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each district pays monthly premiums to the provider, currently Community Insurance Corporation, doing business as Anthem Blue Cross/Blue Shield and Anthem Life Insurance Company of Indiana. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the Shelby County Educational Service Center. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, The Pinnacle Advisory Group, 131 North Ludlow Street, Dayton, Ohio 45402.

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 Plan (Plan) was established through the Ohio Association of School Business Officials Association (OASBO) as an insurance purchasing pool.

The Plan'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 OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Ohio School Insurance Program – The District participates in the Ohio School Insurance Program (OSIP), an insurance purchasing pool. The Ohio School Insurance Program (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services.

The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of School District superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

13. STATUTORY RESERVES

The District is required by law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Cash Balance as of June 30, 2003	\$(247,004)	\$ (1,362,539)	\$ 105,624
Current Year Requirements	111,842	111,842	
Current Year Offsets		(492,825)	
Qualifying Disbursements	(145,384)	(145,689)	
Total - Carried Forward to FY 2005	<u>\$ (280,546)</u>	<u>\$ (1,889,211)</u>	<u>\$ 105,624</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts may be used to reduce the set-aside requirements of future years.

14. CONTINGENCIES

A. Grants

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

B. Litigation

The District currently has pending litigation filed by an employee against both the District and the Bureau of Workers Compensation. The litigant is seeking to participate in a Workers' Compensation claim which has been disallowed. Financial liability will be limited to reinstatement of used sick leave time which could increase an eventual severance payment and an increase in Workers Compensation premiums. The District is of the opinion that this and any other current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the District.

15. STATE SCHOOL FUNDING DECISION

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>		<u>Capital Projects</u>
Cash Receipts					
Taxes	\$1,926,932		\$466,957		\$2,393,889
Intergovernmental	3,144,467	\$164,804	59,435	\$1,200	3,369,906
Tuition and Fees	30,838	3,100			33,938
Earnings on Investments	30,166	135		2,993	33,294
Extracurricular Activities		152,748			152,748
Classroom Materials & Fees	63,099	3,127			66,226
Miscellaneous	76,127	80,147		36	156,310
Total Cash Receipts	5,271,629	404,061	526,392	4,229	6,206,311
Disbursements					
Current:					
Instruction:					
Regular	2,805,986	40,649			2,846,635
Special	266,926	37,770			304,696
Vocational	54,560				54,560
Other	68,511				68,511
Support Services:					
Pupils	292,189	119,298			411,487
Instruction	255,455	35,264			290,719
Board of Education	21,159				21,159
Administration	463,673	11,552			475,225
Fiscal	152,062		9,473		161,535
Operation and Maintenance	460,360				460,360
Transportation	200,163				200,163
Central Services	42,035	9,454			51,489
Non-Instructional Services		350			350
Extracurricular Activities	209,652	108,277			317,929
Capital Outlay	30,464	619		74,771	105,854
Debt Service			487,195		487,195
Total Cash Disbursements	5,323,195	363,233	496,668	74,771	6,257,867
Cash Receipts Over(Under) Cash Disbursements	(51,566)	40,828	29,724	(70,542)	(51,556)
Other Sources (Uses):					
Sale of Assets	2,144				2,144
Refund of Prior Year Expenditures	4,990	2,719			7,709
Advances In	17,712	15,284			32,996
Advances Out	(15,284)	(17,712)			(32,996)
Operating Transfers In		1,000			1,000
Operating Transfers Out	(1,000)				(1,000)
Refund of Prior Year Receipts	(1,165)	(5,853)			(7,018)
Total Other Sources (Uses)	7,397	(4,562)			2,835
Cash Receipts and Other Sources Over(Under) Cash Disbursements and Other Uses	(44,169)	36,266	29,724	(70,542)	(48,721)
Fund Cash Balances at Beginning of Year, Restated	1,025,693	125,487	216,075	219,460	1,586,715
Fund Cash Balances at End of Year	\$981,524	\$161,753	\$245,799	\$148,918	\$1,537,994

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Receipts			
Food Services	\$194,676		\$194,676
Extracurricular Activities		\$93,547	93,547
Classroom Materials and Fees		333	333
Total Operating Receipts	<u>194,676</u>	<u>93,880</u>	<u>288,556</u>
Operating Disbursements			
Salaries	83,139		83,139
Retirement & Insurances	41,440		41,440
Purchased Services	17,541	341	17,882
Materials and Supplies	80,212	4,621	84,833
Capital Outlay	861		861
Other Objects	358	96,287	96,645
Total Operating Disbursements	<u>223,551</u>	<u>101,249</u>	<u>324,800</u>
Operating Income (Loss)	(28,875)	(7,369)	(36,244)
Non-Operating Receipts(Disbursements)			
Federal and State Subsidies	31,493		31,493
Earnings on Investments	357	815	1,172
Miscellaneous		5,615	5,615
Refund of Prior Years Expenditures	315		315
Total Non-Operating Receipts (Disbursements)	<u>32,165</u>	<u>6,430</u>	<u>38,595</u>
Net Income (Loss)	3,290	(939)	2,351
Fund Cash Balances at Beginning of Year, Restated	<u>22,889</u>	<u>46,089</u>	<u>68,978</u>
Fund Cash Balances at End of Year	<u>\$26,179</u>	<u>\$45,150</u>	<u>\$71,329</u>

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$5,255,431	\$5,278,763	\$23,332
Special Revenue Funds	397,848	407,780	9,932
Debt Service Funds	502,745	526,392	23,647
Capital Project Funds	4,149	4,229	80
Proprietary:			
Enterprise Funds	<u>224,034</u>	<u>226,841</u>	<u>2,807</u>
Total (Memorandum Only)	<u><u>\$6,384,207</u></u>	<u><u>\$6,444,005</u></u>	<u><u>\$59,798</u></u>

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

FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY

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

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding At 6/30/03	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$86,563	\$5,435,985	\$5,522,548	\$5,325,360	\$42,145	\$5,367,505	\$155,043
Special Revenue Funds	20,312	460,238	480,550	369,086	67,570	436,656	43,894
Debt Service Funds		696,668	696,668	496,668		496,668	200,000
Capital Project Funds	44,872	174,585	219,457	74,771	10,830	85,601	133,856
Proprietary:							
Enterprise Funds	701	224,631	225,332	223,551	671	224,222	1,110
Total (Memorandum Only)	<u>\$152,448</u>	<u>\$6,992,107</u>	<u>\$7,144,555</u>	<u>\$6,489,436</u>	<u>\$121,216</u>	<u>\$6,610,652</u>	<u>\$533,903</u>

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is located in Shelby County. The District is staffed by 31 non-certificated employees, 54 certificated full-time teaching personnel and 5 administrative employees who provide services to 830 students and other community members. The District currently operates two instructional/support buildings.

Reporting Entity:

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District participates in five jointly governed organizations and three insurance purchasing pools. These organizations include the Shelby County Local Professional Development Committee, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, the West Central Ohio Special Education Regional Resource Center, the Western Ohio Computer Organization, the Ohio Association of School Business Officials' Workers' Compensation Group Rating Plan, the Shelby County Schools Consortium and the Ohio School Insurance Program. These organizations are discussed in Note 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

As required by Ohio Administrative Code Section 117-2-03 (B), the District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the District chooses to prepare (for audit purposes) its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

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

1. Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required by law to be accounted for in another fund.

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

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

2. Proprietary Fund Type:

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include agency funds.

C. Budgetary Process

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

1. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year.

Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002, unencumbered fund balances. However, those fund balances are available for appropriations.

2. Appropriations

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

3. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

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

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

E. Unpaid Vacation and Sick Leave

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

F. Property, Plant and Equipment

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

G. Total Columns on Financial Statements

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

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

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

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Agency</u>	<u>Enterprise</u>
Fund Balance/Retained Earnings June 30, 2002	\$ 766,715	\$117,425	\$237,576	\$197,181	\$ 0	\$136,676
Accrual adjustments	258,978	8,062	(21,501)	22,279	46,089	(113,787)
Restated Fund Balance July 1, 2002	<u>\$1,025,693</u>	<u>\$125,487</u>	<u>\$216,075</u>	<u>\$219,460</u>	<u>\$46,089</u>	<u>\$ 22,889</u>

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Cash on Hand: At fiscal year end, the District had \$150 in undeposited cash on hand.

At fiscal year end, the District had \$14,296 in cash reported in the special revenue funds that is held by the Shelby County Educational Service Center, which is the fiscal agent for several school districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The risk classifications for the Shelby County Educational Service Center as a whole can be obtained by writing to Cathy Doseck, who serves as Treasurer, at 129 East Court Street, Sidney, Ohio 45365.

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,594,877 and the bank balance was \$1,713,973. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,513,973 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

5. 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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2003, on the value as of December 31, 2002. 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 Shelby and Darke Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$56,561,910	88.59%	\$60,266,010	88.4%
Public Utility – Real	1,952,150	3.06%	2,202,240	3.2%
Tangible Personal Property	5,329,065	8.35%	5,711,890	8.4%
Total Assessed Value	<u>\$63,803,125</u>	<u>100.00%</u>	<u>\$68,180,140</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.90		\$44.90	

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

6. INCOME TAX

The District levies a voted tax of 3/4 percent for general operations on the income of residents and estates. Initially, the tax was effective on January 1, 1995 through December 1999. In May 1999, the tax was renewed for another five-year period, effective January 1, 2000. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

7. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the District contracted for the following insurance coverage:

Utica Insurance	
Building and Contents - Replacement cost (\$1,000 deductible - 90% co-insurance)	\$16,100,000
Inland Marine Coverage (\$250 deductible)	948,500
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Medical Payments per person	5,000
Ohio School Plan	
General Liability	
Per occurrence	3,000,000
Annual Aggregate	5,000,000

The District has not incurred any claims greater than insured coverages for the last three years and there has been no significant reduction in coverages from the prior year.

For fiscal year 2003, the District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS

A. 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 to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001, was \$356,125, \$248,283, and \$237,994, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal year 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$469 made by the District and \$415 made by plan members.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$56,376, \$35,707, and \$26,400, respectively.

C. Social Security System

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

9. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$27,428 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, the balance in the Fund was \$2.8 billion. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,739,000 and STRS Ohio had 108,294 eligible benefit recipients.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

9. POST-EMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$53,103.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

The District participates in the Shelby County Insurance Consortium, a public entity risk-purchasing group. The group includes seven local school districts and the Shelby County Educational Service Center. The consortium contracted with Community Insurance Corporation to provide employee medical/surgical and dental coverages. Rates are set annually by the insurance carrier to which the District pays monthly premiums. The employees share the cost of the monthly medical/surgical premium with the Board. Vision insurance is provided to all eligible employees, under a policy with Vision Plan of America. Term Life insurance is provided to all eligible employees, under a policy with Medical Life Insurance Company.

11. DEBT OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2003 were as follows:

	Interest Rate	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
General Obligation Bonds					
1982 School Facilities Issue	11%	\$70,000	\$0	\$70,000	\$0
1998 School Facilities Issue					
Serial and Term Bonds	3.7 - 5.00%	5,550,000		150,000	5,400,000
Capital Appreciation Bonds	16.25 - 19%	109,945		0	109,945
Accretion		103,587	39,380	0	142,967
Total General Obligation Bonds		<u>\$5,833,532</u>	<u>\$39,380</u>	<u>\$220,000</u>	<u>\$5,652,912</u>

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

11. DEBT OBLIGATIONS (Continued)

1982 School Facilities Issue - On November 1, 1982, the District issued \$1,360,000 in voted general obligation school improvement bonds for the purpose of building and furnishing a high school building. The bonds were issued for twenty- one years with final maturity in fiscal year 2003 and will be paid from property taxes collected and placed in the District's bond retirement fund.

1998 School Facilities Issue - On July 28, 1998, the Board of Education issued \$6,049,946 in voted general obligation bonds for the purpose of constructing, improving and making additions to school buildings and related site development, under special needs provisions of Section 133.06(E) Revised Code. The bond issue included serial, term and capital appreciation bonds in the amount of \$3,470,000; \$2,970,000; and \$109,946; respectively. The bonds will be retired with a voted property tax levy received in the debt service fund.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to commence on December 1, 2016, (with the balance of \$270,000 to be paid at stated maturity on December 1, 2018) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$245,000
2017	255,000

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to commence on December 1 2019, (with the balance of \$400,000 to be paid at stated maturity on December 1, 2026) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2019	\$285,000	2023	\$345,000
2020	295,000	2024	360,000
2021	310,000	2025	380,000
2022	325,000		

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial bonds maturing after December 1, 2009 are subject to optional redemption, in whole or in part of any date in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000 at the option of the District on or after December 1, 2009 at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth below, plus accrued interest to the redemption date:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5%
December 1, 2010 and thereafter	100.0%

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

11. DEBT OBLIGATIONS (Continued)

The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$525,000. For fiscal year 2003, \$39,380 was accredited for a total bond value of \$252,912.

The District's overall debt margin was \$729,101 with an unvoted debt margin of \$68,180 at June 30, 2003.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30,	Principal;	Interest	Total
2004	\$155,000	\$257,015	\$ 412,015
2005	165,000	250,254	415,254
2006	170,000	311,343	481,343
2007	38,500	376,855	415,355
2008	36,666	378,715	415,381
2009 – 2013	799,780	1,199,682	1,999,462
2014 – 2018	1,175,000	887,001	2,062,001
2019 – 2023	1,485,000	563,423	2,048,423
2024 – 2027	1,485,000	153,125	1,638,125
Total	<u>\$5,509,946</u>	<u>\$4,377,413</u>	<u>\$9,887,359</u>

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - The District is a participant in the Western Ohio Computer Organization, which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. WOCO was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The superintendent of each member district is seated on the assembly which elects a Board of Directors for the consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of eleven members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Lewis Ivey, Jr., who serves as its administrator, 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council (SOEPC) - The Southwestern Ohio Educational Purchasing Council (SOEPC) was established in 1986 to foster cooperation among educational entities located in southwestern Ohio. The SOEPC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

The SOEPC is governed by an elected Board consisting of 10 representatives of the educational entities and the Montgomery County Educational Service Center superintendent. The Board, except for the Superintendent of the Montgomery County Educational Service Center, is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Ohio Educational Purchasing Council, 1831 Harshman Road, Dayton, Ohio 45424.

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from some of the participating school districts elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Upper Valley Joint Vocational School, William Stump, Treasurer, at 8811 Career Drive, Piqua, Ohio 45356.

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

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

Shelby County Local Professional Development Committee - The District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County.

The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365

B. Insurance Purchasing Pools

Shelby County Schools Consortium - The Shelby County Schools Consortium (the Consortium) is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Each district pays monthly premiums to the provider, currently Community Insurance Corporation, doing business as Anthem Blue Cross/Blue Shield and Anthem Life Insurance Company of Indiana. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the Shelby County Educational Service Center. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, The Pinnacle Advisory Group, 131 North Ludlow Street, Dayton, Ohio 45402.

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 Plan (Plan) was established through the Ohio Association of School Business Officials Association (OASBO) as an insurance purchasing pool.

The Plan'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 OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

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

13. STATUTORY RESERVES

The District is required by law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Improvements	Budget Stabilization	Totals
Cash Balance as of June 30, 2002	\$ (183,364)	\$ (848,315)	\$ 105,624	\$ (926,055)
Current Year Requirements	107,098	107,098		214,196
Current Year Offsets	0	(466,957)		(466,957)
Qualifying Disbursements	(170,738)	(154,365)		(325,103)
Total - Carried Forward to FY 2004	<u>\$ (247,004)</u>	<u>\$ (1,362,539)</u>	<u>\$ 105,624</u>	<u>\$ (1,503,919)</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts may be used to reduce the set-aside requirements of future years.

**FORT LORAMIE LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

14. CONTINGENCIES

A. Grants

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

B. Litigation

The District is of the opinion that any current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the District.

15. STATE SCHOOL FUNDING DECISION

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

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

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



**Auditor of State
Betty Montgomery**

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

Fort Loramie Local School District
Shelby County
575 Greenback Road
P.O. Box 26
Fort Loramie, Ohio 45845

To the Board of Education:

We have audited the financial statements of Fort Loramie Local School District, Shelby County, (the District), as of and for the year ended June 30, 2004 and June 30, 2003, and have issued our report thereon dated December 17, 2004, wherein we noted that the District implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated December 17, 2004.

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

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

Betty Montgomery
Auditor of State

December 17, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**FORT LORAMIE LOCAL SCHOOL DISTRICT
VAN WERT 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
FEBRUARY 10, 2005**