

Mary Taylor, CPA
Auditor of State

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 13, 2008

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the Fostoria City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$2,939,334 which represents a 24.58% increase from 2006.
- General revenues accounted for \$20,807,744 in revenue or 77.43% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,065,030 or 22.57% of all revenues.
- The District had \$23,933,440 in expenses related to governmental activities; \$6,065,030 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The General fund, the District's only major governmental fund had \$20,822,711 in revenues and other financing sources and \$18,031,523 in expenditures and other financing uses. The fund balance of the general fund increased from \$6,692,456 to \$9,483,644.
- The District restated capital assets as described in Note 3.A. The District has \$10,036,013 in capital assets at June 30, 2007. This amount is net of accumulated depreciation in the amount of \$14,481,787. Fiscal year 2007 depreciation expense was \$665,283. Total capital assets, net of related debt to acquire or construct the assets, were \$3,831,969 at June 30, 2007.
- The District has \$8,321,192 in long-term liabilities outstanding at June 30, 2007. Of this total, \$802,791 is due within one year and \$7,518,401 is due in more than one year.

Using this Financial Report

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The District restated net assets as described in Note 3.A to the basic financial statements.

The table below provides a summary of the District's net assets for 2007 and 2006.

| | Net Assets | |
|--|---|---|
| | Governmental Activities <u>2007</u> | Restated Governmental Activities <u>2006</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 24,156,376 | \$ 22,020,585 |
| Capital assets | <u>10,036,013</u> | <u>10,575,039</u> |
| Total assets | <u>34,192,389</u> | <u>32,595,624</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 10,971,857 | 11,721,570 |
| Long-term liabilities | <u>8,321,192</u> | <u>8,914,048</u> |
| Total liabilities | <u>19,293,049</u> | <u>20,635,618</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 3,831,969 | 3,645,456 |
| Restricted | 2,756,407 | 2,452,507 |
| Unrestricted | <u>8,310,964</u> | <u>5,862,043</u> |
| Total net assets | <u>\$ 14,899,340</u> | <u>\$ 11,960,006</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

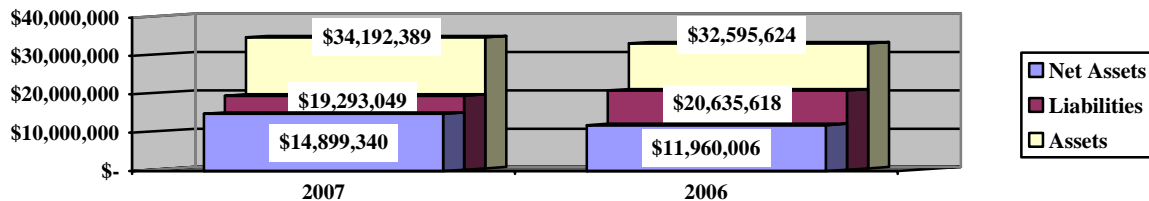
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$14,899,340.

At year-end, capital assets represented 29.35% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,831,969. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,756,407, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$8,310,964 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

| | Governmental Activities 2007 | Governmental Activities 2006 |
|------------------------------------|------------------------------------|------------------------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services and sales | \$ 807,619 | \$ 898,577 |
| Operating grants and contributions | 5,218,072 | 4,421,747 |
| Capital grants and contributions | 39,339 | 14,709 |
| General revenues: | | |
| Property taxes | 9,751,214 | 10,539,380 |
| Grants and entitlements | 10,299,605 | 9,219,092 |
| Investment earnings | 646,695 | 349,630 |
| Other | 110,230 | 48,760 |
| Total revenues | <u>26,872,774</u> | <u>25,491,895</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

| | Change in Net Assets | |
|--|---|---|
| | Governmental Activities <u>2007</u> | Governmental Activities <u>2006</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 9,336,130 | \$ 7,581,272 |
| Special | 2,710,905 | 2,549,337 |
| Vocational | 157,517 | 144,723 |
| Adult/continuing education | 66,837 | 67,142 |
| Other | 674,535 | 1,758,314 |
| Support services: | | |
| Pupil | 1,071,173 | 897,106 |
| Instructional staff | 2,156,993 | 1,708,845 |
| Board of education | 33,321 | 31,952 |
| Administration | 1,811,497 | 1,699,183 |
| Fiscal | 572,618 | 510,486 |
| Business | 168,120 | 219,764 |
| Operations and maintenance | 1,960,096 | 1,882,798 |
| Pupil transportation | 864,714 | 671,879 |
| Central | 68,732 | 137,017 |
| Food service operations | 1,084,168 | 1,087,718 |
| Other non-instructional services | 92,192 | 78,008 |
| Extracurricular activities | 375,388 | 392,312 |
| Intergovernmental-pass through | 295,033 | 277,189 |
| Interest and fiscal charges | 433,471 | 446,688 |
| Total expenses | <u>23,933,440</u> | <u>22,141,733</u> |
| Special item | | <u>1,003,745</u> |
| Change in net assets | 2,939,334 | 4,353,907 |
| Net assets at beginning of year (restated) | <u>11,960,006</u> | <u>7,606,099</u> |
| Net assets at end of year | <u>\$ 14,899,340</u> | <u>\$ 11,960,006</u> |

Governmental Activities

Net assets of the District's governmental activities increased \$2,939,334. Total governmental expenses of \$23,933,440 were offset by program revenues of \$6,065,030, and general revenues of \$20,807,744. Program revenues supported 25.34% of the total governmental expenses.

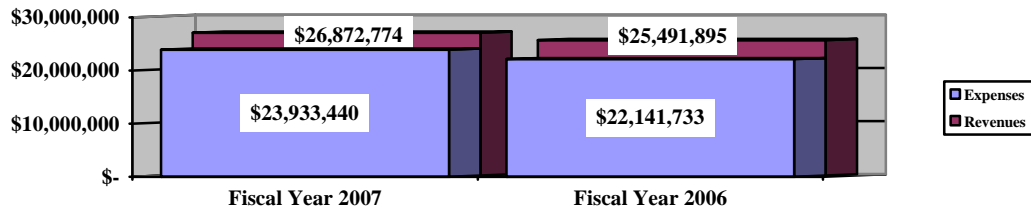
The primary sources of revenue for governmental activities are derived from property taxes. This revenue source accounts for 36.29% of total governmental revenue. Real estate property is reappraised every six years.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

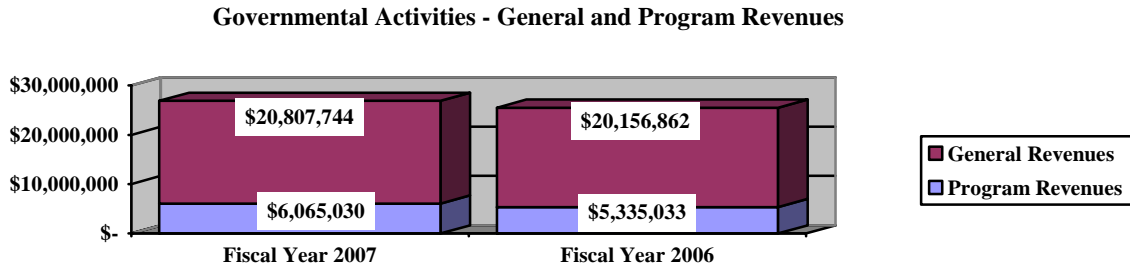
| | Governmental Activities | | | |
|----------------------------------|--------------------------------|------------------------------|--------------------------------|------------------------------|
| | Total Cost of Services 2007 | Net Cost of Services 2007 | Total Cost of Services 2006 | Net Cost of Services 2006 |
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 9,336,130 | \$ 8,698,181 | \$ 7,581,272 | \$ 6,355,691 |
| Special | 2,710,905 | 1,119,940 | 2,549,337 | 1,215,682 |
| Vocational | 157,517 | 127,133 | 144,723 | 60,560 |
| Adult/continuing education | 66,837 | (7,501) | 67,142 | 19,374 |
| Other | 674,535 | (156,681) | 1,758,314 | 1,709,318 |
| Support services: | | | | |
| Pupil | 1,071,173 | 893,456 | 897,106 | 726,008 |
| Instructional staff | 2,156,993 | 1,051,520 | 1,708,845 | 989,841 |
| Board of education | 33,321 | 33,321 | 31,952 | 31,952 |
| Administration | 1,811,497 | 1,732,412 | 1,699,183 | 1,615,544 |
| Fiscal | 572,618 | 572,578 | 510,486 | 505,499 |
| Business | 168,120 | 168,120 | 219,764 | 219,764 |
| Operations and maintenance | 1,960,096 | 1,932,892 | 1,882,798 | 1,848,462 |
| Pupil transportation | 864,714 | 772,328 | 671,879 | 598,971 |
| Central | 68,732 | 61,937 | 137,017 | 113,706 |
| Food service operations | 1,084,168 | 75,305 | 1,087,718 | 21,611 |
| Other non-instructional services | 92,192 | 36,337 | 78,008 | 61,374 |
| Extracurricular activities | 375,388 | 309,939 | 392,312 | 289,195 |
| Intergovernmental pass-through | 295,033 | 13,722 | 277,189 | (22,540) |
| Interest and fiscal charges | 433,471 | 433,471 | 446,688 | 446,688 |
| Total | \$ 23,933,440 | \$ 17,868,410 | \$ 22,141,733 | \$ 16,806,700 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 75.40% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.57%. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,301,899, which is higher than last year's total of \$9,213,429. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

| | Fund Balance June 30, 2007 | Fund Balance June 30, 2006 | Increase | Percentage Change |
|--------------------|-------------------------------|-------------------------------|---------------------|----------------------|
| General | \$ 9,483,644 | \$ 6,692,456 | \$ 2,791,188 | 41.71 % |
| Other Governmental | 2,818,255 | 2,520,973 | 297,282 | 11.79 % |
| Total | \$12,301,899 | \$ 9,213,429 | \$ 3,088,470 | 33.52 % |

General Fund

During fiscal year 2007, the District's general fund balance increased by \$2,791,188, which can be attributed to increased investment earnings and intergovernmental revenues during fiscal year 2007. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

| | <u>2007</u> | <u>2006</u> | <u>Increase</u> | <u>Percentage</u> |
|--|---------------------|---------------------|-------------------|-------------------|
| | <u>Amount</u> | <u>Amount</u> | <u>(Decrease)</u> | <u>Change</u> |
| <u>Revenues</u> | | | | |
| Taxes | \$ 9,014,687 | \$ 9,403,676 | \$ (388,989) | (4.14) % |
| Tuition | 326,230 | 333,391 | (7,161) | (2.15) % |
| Earnings on investments | 577,119 | 312,785 | 264,334 | 84.51 % |
| Intergovernmental | 10,712,863 | 10,181,901 | 530,962 | 5.21 % |
| Other revenues | <u>171,176</u> | <u>154,488</u> | <u>16,688</u> | 10.80 % |
| Total | <u>\$20,802,075</u> | <u>\$20,386,241</u> | <u>\$ 415,834</u> | 2.04 % |
| <u>Expenditures</u> | | | | |
| Instruction | \$10,264,588 | \$10,120,489 | \$ 144,099 | 1.42 % |
| Support services | 7,215,283 | 6,834,663 | 380,620 | 5.57 % |
| Extracurricular activities | 277,678 | 284,458 | (6,780) | (2.38) % |
| Operation of non-instructional services | 45,044 | 45,220 | (176) | (0.39) % |
| Debt service | <u>118,507</u> | <u>184,405</u> | <u>(65,898)</u> | (35.74) % |
| Total | <u>\$17,921,100</u> | <u>\$17,469,235</u> | <u>\$ 451,865</u> | 2.59 % |

The increase in earnings on investments is due to higher interest rates. All other revenues and expenditures remained relatively comparable to the prior year.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$20,746,673 were \$463,966 less than the original budgeted revenues estimate of \$21,210,639. Actual revenues and other financing sources of \$20,827,637 were \$80,964 higher than the final budgeted amounts.

General fund actual expenditures plus other financing uses of \$18,965,155 were \$2,278,643 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$21,243,798 due to good planning and a tight control of overall expenditures. The original appropriations plus other financing uses were \$19,682,182 which was \$1,561,616 less than the final appropriations.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets as described in Note 3.A to the basic financial statements. At the end of fiscal year 2007, the District had \$10,036,013 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to restated 2006:

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

| | Governmental Activities | |
|----------------------------|-------------------------|--------------------|
| | 2007 | (Restated) 2006 |
| Land | \$ 264,497 | \$ 264,497 |
| Land improvements | 249,401 | 284,376 |
| Buildings and improvements | 8,918,780 | 9,381,013 |
| Furniture and equipment | 154,601 | 218,817 |
| Vehicles | 448,734 | 426,336 |
| Total | \$ 10,036,013 | \$ 10,575,039 |

Total additions to capital assets for 2007 were \$209,607 and depreciation expense was \$665,283.

Debt Administration

At June 30, 2007 the District had \$6,894,882 in bonds, \$28,539 in loans and \$274,000 in capital leases outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. Of this total, \$752,539 is due within one year and \$6,444,882 is due within more than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

| | Governmental Activities 2007 | Governmental Activities 2006 |
|---------------------------------|------------------------------------|------------------------------------|
| Middle school refinancing bonds | \$ 5,656,882 | \$ 6,092,217 |
| QZAB Energy conservation bonds | 1,238,000 | 1,238,000 |
| H.B. 264 loan | 28,539 | 57,078 |
| Capital Leases | 274,000 | 336,000 |
| Total | \$ 7,197,421 | \$ 7,723,295 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

At June 30, 2007, the District's overall legal debt margin was \$11,460,865 with an unvoted debt margin of \$181,931 excluding energy conservation and an unvoted debt margin related to energy conservation of \$399,377.

Current Financial Related Activities

Overall, the District remains financially viable although there are several challenges that lie ahead. Fostoria City School District increased by four additional indicators on the 2007 Local Report Card and earned a district rating of Continuous improvement. A total of eleven indicators were earned, including Grade 3 Mathematics, Grade 4 Writing, Grade 5 Reading, Grade 7 Reading, Grade 10 Reading and Writings, Grade 11 Reading, Writing, Mathematics and Social Studies, and District Wide Attendance. The 2007 Performance Index of 87.8 is in the Continuous Improvement range, and 2.2 points below the Effective. All district schools are rated Continuous Improvement, with the exception of Fostoria High School, which is rated Effective.

Our district was unable to reach Adequate Yearly Progress (AYP), which is a measure that rewards the achievement of student groups within a school or district. Student Groups include: All students, economically disadvantaged, Asian/Pacific Islander, African American, Hispanic, Multi-Racial, White, IEP, and LEP Groups. There is the potential for funding impact with our federal funds and also increased costs for mandatory bussing of students to neighboring districts.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The District does not anticipate growth in state revenue, as in the ten years prior to the DeRolph decision; no state revenue growth was realized. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback; homestead and personal property tax. Now with HB 66 the decision to totally eliminate all Tangible Personal Property Taxes is a significant change in state policy. This represents approximately 30% of our local revenue, the State is reimbursing schools until 2011 but this will be a challenge for our community to come up with a way to replace this revenue source.

The public schools in Ohio also face the challenges of meeting many unfunded mandates by both the state and federal government. Examples would be Educational Management Information System (state) and No Child Left Behind (federal) compliance.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Pamela S. Barber, Treasurer, Fostoria City School District, Administration Building, 500 Parkway Drive, Fostoria, Ohio 44830-1513.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 12,760,104 |
| Cash with fiscal agent | 112,607 |
| Receivables: | |
| Taxes | 10,569,280 |
| Accounts | 2,571 |
| Intergovernmental | 517,878 |
| Accrued interest | 42,576 |
| Prepayments | 105,785 |
| Materials and supplies inventory | 45,575 |
| Capital assets: | |
| Land | 264,497 |
| Depreciable capital assets, net | 9,771,516 |
| Capital assets, net. | 10,036,013 |
| Total assets. | 34,192,389 |
| Liabilities: | |
| Accounts payable. | 71,850 |
| Accrued wages and benefits | 1,460,809 |
| Intergovernmental payable | 68,940 |
| Unearned revenue | 8,889,107 |
| Accrued interest payable | 26,107 |
| Pension obligation payable | 455,044 |
| Long-term liabilities: | |
| Due within one year. | 802,791 |
| Due within more than one year | 7,518,401 |
| Total liabilities | 19,293,049 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 3,831,969 |
| Restricted for: | |
| Capital projects | 1,375,265 |
| Debt service. | 773,644 |
| State funded programs | 383,550 |
| Federally funded programs | 223,948 |
| Unrestricted. | 8,310,964 |
| Total net assets | \$ 14,899,340 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 9,336,130 | \$ 380,241 | \$ 257,708 | | \$ (8,698,181) |
| Special | 2,710,905 | 89 | 1,590,876 | | (1,119,940) |
| Vocational | 157,517 | | 30,384 | | (127,133) |
| Adult/continuing education | 66,837 | | 74,338 | | 7,501 |
| Other | 674,535 | | 831,216 | | 156,681 |
| Support services: | | | | | |
| Pupil. | 1,071,173 | 283 | 177,434 | | (893,456) |
| Instructional staff | 2,156,993 | | 1,083,585 | \$ 21,888 | (1,051,520) |
| Board of education | 33,321 | | | | (33,321) |
| Administration. | 1,811,497 | 35,272 | 38,028 | 5,785 | (1,732,412) |
| Fiscal. | 572,618 | | 40 | | (572,578) |
| Business. | 168,120 | | | | (168,120) |
| Operations and maintenance | 1,960,096 | 7,747 | 19,457 | | (1,932,892) |
| Pupil transportation | 864,714 | | 80,720 | 11,666 | (772,328) |
| Central | 68,732 | | 6,795 | | (61,937) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 1,084,168 | 322,781 | 686,082 | | (75,305) |
| Other non-instructional services | 92,192 | | 55,855 | | (36,337) |
| Extracurricular activities. | 375,388 | 61,206 | 4,243 | | (309,939) |
| Intergovernmental pass-through | 295,033 | | 281,311 | | (13,722) |
| Interest and fiscal charges | 433,471 | | | | (433,471) |
| Total governmental activities | \$ 23,933,440 | \$ 807,619 | \$ 5,218,072 | \$ 39,339 | (17,868,410) |
| General Revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 8,793,480 |
| Debt service. | | | | | 689,959 |
| Capital projects | | | | | 267,775 |
| Grants and entitlements not restricted to specific programs. | | | | | 10,299,605 |
| Investment earnings | | | | | 646,695 |
| Miscellaneous | | | | | 110,230 |
| Total general revenues | | | | | 20,807,744 |
| Change in net assets | | | | | 2,939,334 |
| Net assets at beginning of year (restated) | | | | | 11,960,006 |
| Net assets at end of year | | | | | \$ 14,899,340 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 9,730,056 | \$ 2,924,725 | \$ 12,654,781 |
| Receivables: | | | |
| Taxes | 9,518,658 | 1,050,622 | 10,569,280 |
| Accounts | 2,415 | 156 | 2,571 |
| Intergovernmental | | 517,878 | 517,878 |
| Accrued interest | 42,576 | | 42,576 |
| Interfund loans | 455,000 | | 455,000 |
| Prepayments | 85,158 | 20,627 | 105,785 |
| Materials and supplies inventory | 41,787 | 3,788 | 45,575 |
| Restricted assets: | | | |
| Cash with escrow agent | | 112,607 | 112,607 |
| Equity in pooled cash and cash equivalents | 105,323 | | 105,323 |
| Total assets | <u>\$ 19,980,973</u> | <u>\$ 4,630,403</u> | <u>\$ 24,611,376</u> |
| Liabilities: | | | |
| Accounts payable | \$ 47,078 | \$ 24,772 | \$ 71,850 |
| Accrued wages and benefits | 1,258,549 | 202,260 | 1,460,809 |
| Compensated absences payable | 3,761 | | 3,761 |
| Pension obligation payable | 404,761 | 50,283 | 455,044 |
| Intergovernmental payable | 58,351 | 10,589 | 68,940 |
| Interfund loan payable | | 455,000 | 455,000 |
| Deferred revenue | 717,091 | 187,875 | 904,966 |
| Unearned revenue | 8,007,738 | 881,369 | 8,889,107 |
| Total liabilities | <u>10,497,329</u> | <u>1,812,148</u> | <u>12,309,477</u> |
| Fund Balances: | | | |
| Reserved for encumbrances | 464,110 | 417,075 | 881,185 |
| Reserved for materials and supplies inventory | 41,787 | 3,788 | 45,575 |
| Reserved for prepayments | 85,158 | 20,627 | 105,785 |
| Reserved for property tax unavailable for appropriation | 817,262 | 92,631 | 909,893 |
| Reserved for budget stabilization | 89,109 | | 89,109 |
| Reserved for textbooks | 16,214 | | 16,214 |
| Undesignated, reported in: | | | |
| General fund | 7,970,004 | | 7,970,004 |
| Special revenue funds | | 435,378 | 435,378 |
| Debt service fund | | 675,622 | 675,622 |
| Capital projects funds | | 1,173,134 | 1,173,134 |
| Total fund balances | <u>9,483,644</u> | <u>2,818,255</u> | <u>12,301,899</u> |
| Total liabilities and fund balances | <u>\$ 19,980,973</u> | <u>\$ 4,630,403</u> | <u>\$ 24,611,376</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

| | | |
|--|-------------|----------------------|
| Total governmental fund balances | | \$ 12,301,899 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 10,036,013 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 770,280 | |
| Intergovernmental revenue | 111,253 | |
| Accrued interest | 23,433 | |
| Total | | 904,966 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | (26,107) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (1,120,010) | |
| General obligation bonds payable | (6,894,882) | |
| Energy conservation loans payable | (28,539) | |
| Capital lease obligation payable | (274,000) | |
| Total | | (8,317,431) |
| Net assets of governmental activities | | \$ 14,899,340 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 9,014,687 | \$ 981,435 | \$ 9,996,122 |
| Tuition. | 326,230 | | 326,230 |
| Charges for services. | | 322,781 | 322,781 |
| Earnings on investments. | 577,119 | 61,547 | 638,666 |
| Extracurricular. | | 97,753 | 97,753 |
| Classroom materials and fees. | 42,187 | | 42,187 |
| Other local revenues. | 92,321 | 56,116 | 148,437 |
| Other revenue | 36,668 | 500 | 37,168 |
| Intergovernmental - State. | 10,712,528 | 1,526,897 | 12,239,425 |
| Intergovernmental - Federal | 335 | 3,158,627 | 3,158,962 |
| Total revenue | <u>20,802,075</u> | <u>6,205,656</u> | <u>27,007,731</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 8,369,554 | 243,247 | 8,612,801 |
| Special. | 1,688,619 | 986,846 | 2,675,465 |
| Vocational. | 153,724 | | 153,724 |
| Adult/continuing education | 7,936 | 58,901 | 66,837 |
| Other. | 44,755 | 629,780 | 674,535 |
| Support services: | | | |
| Pupil. | 904,068 | 161,974 | 1,066,042 |
| Instructional staff | 1,136,474 | 1,005,996 | 2,142,470 |
| Board of education | 33,321 | | 33,321 |
| Administration. | 1,707,142 | 107,142 | 1,814,284 |
| Fiscal | 553,277 | 18,690 | 571,967 |
| Business | 168,120 | | 168,120 |
| Operations and maintenance. | 1,888,331 | 34,056 | 1,922,387 |
| Pupil transportation | 759,137 | 31,075 | 790,212 |
| Central. | 65,413 | 6,952 | 72,365 |
| Operation of non-instructional services: | | | |
| Food service operations | | 1,042,096 | 1,042,096 |
| Other non-instructional services | 45,044 | 55,163 | 100,207 |
| Extracurricular activities. | 277,678 | 83,624 | 361,302 |
| Intergovernmental pass-through | | 295,033 | 295,033 |
| Facilities acquisition and construction | | 400,579 | 400,579 |
| Debt service: | | | |
| Principal retirement | 90,539 | 635,000 | 725,539 |
| Interest and fiscal charges | 27,968 | 202,007 | 229,975 |
| Total expenditures | <u>17,921,100</u> | <u>5,998,161</u> | <u>23,919,261</u> |
| Excess of revenues over expenditures | <u>2,880,975</u> | <u>207,495</u> | <u>3,088,470</u> |
| Other financing sources (uses): | | | |
| Transfers in. | 20,636 | 110,423 | 131,059 |
| Transfers (out) | (110,423) | (20,636) | (131,059) |
| Total other financing sources (uses) | <u>(89,787)</u> | <u>89,787</u> | |
| Net change in fund balances | 2,791,188 | 297,282 | 3,088,470 |
| Fund balances at beginning of year. | <u>6,692,456</u> | <u>2,520,973</u> | <u>9,213,429</u> |
| Fund balances at end of year. | <u>\$ 9,483,644</u> | <u>\$ 2,818,255</u> | <u>\$ 12,301,899</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ 3,088,470

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

| | | | |
|---------------------------|----|------------------|------------------|
| Capital asset additions | \$ | 209,607 | |
| Current year depreciation | | (665,283) | |
| Total | | (455,676) | (455,676) |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(83,350)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | | |
|---------------------------|--|------------------|------------------|
| Taxes | | (244,908) | |
| Intergovernmental revenue | | 100,950 | |
| Accrued interest | | 9,001 | |
| Total | | (134,957) | (134,957) |

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

725,539

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.

| | | | |
|---|--|------------------|------------------|
| Accrued interest | | (3,831) | |
| Accreted interest on capital appreciation bonds | | (199,665) | |
| Total | | (203,496) | (203,496) |

Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

2,804

Change in net assets of governmental activities **\$ 2,939,334**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | <u>Budgeted Amounts</u> | | | Variance with |
|--|-------------------------|---------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 8,334,147 | \$ 8,590,116 | \$ 8,775,010 | \$ 184,894 |
| Tuition | 318,443 | 328,223 | 325,681 | (2,542) |
| Earnings on investments | 523,909 | 540,000 | 524,562 | (15,438) |
| Classroom materials and fees | 42,165 | 43,460 | 42,612 | (848) |
| Other local revenues | 59,381 | 61,205 | 96,679 | 35,474 |
| Other revenues | 35,576 | 36,668 | 36,668 | |
| Intergovernmental - State | 10,504,787 | 10,827,423 | 10,712,528 | (114,895) |
| Intergovernmental - Federal | 325 | 335 | 335 | |
| Total revenue | <u>19,818,733</u> | <u>20,427,430</u> | <u>20,514,075</u> | <u>86,645</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,431,277 | 9,578,040 | 8,569,586 | 1,008,454 |
| Special | 1,870,332 | 2,124,722 | 1,736,940 | 387,782 |
| Vocational | 148,598 | 168,809 | 156,485 | 12,324 |
| Adult/continuing education | 7,931 | 9,010 | 8,590 | 420 |
| Other | 85,412 | 97,029 | 51,562 | 45,467 |
| Support services: | | | | |
| Pupil | 937,854 | 1,065,414 | 979,894 | 85,520 |
| Instructional staff | 1,133,697 | 1,287,894 | 1,225,296 | 62,598 |
| Board of education | 40,020 | 45,463 | 36,604 | 8,859 |
| Administration | 1,643,612 | 1,867,165 | 1,728,016 | 139,149 |
| Fiscal | 511,636 | 581,225 | 555,407 | 25,818 |
| Business | 229,856 | 261,119 | 234,122 | 26,997 |
| Operations and maintenance | 2,012,785 | 2,286,549 | 1,973,640 | 312,909 |
| Pupil transportation | 790,794 | 898,352 | 784,637 | 113,715 |
| Central | 78,923 | 89,658 | 72,176 | 17,482 |
| Operation of non-instructional services | 48,805 | 55,443 | 44,497 | 10,946 |
| Extracurricular activities | 258,780 | 293,977 | 273,774 | 20,203 |
| Debt service: | | | | |
| Principal retirement | 176,902 | 90,539 | 90,539 | |
| Interest and fiscal charges | 24,619 | 27,967 | 27,967 | |
| Total expenditures | <u>18,431,833</u> | <u>20,828,375</u> | <u>18,549,732</u> | <u>2,278,643</u> |
| Excess of revenues over (under) expenditures | <u>1,386,900</u> | <u>(400,945)</u> | <u>1,964,343</u> | <u>2,365,288</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 3,455 | 3,560 | 3,864 | 304 |
| Transfers in | 1,102,196 | 20,636 | 20,636 | |
| Transfers (out) | (981,866) | (110,423) | (110,423) | |
| Advances in | 280,434 | 289,047 | 289,047 | |
| Advances (out) | (268,483) | (305,000) | (305,000) | |
| Sale of capital assets | 5,821 | 6,000 | 15 | (5,985) |
| Total other financing sources (uses) | <u>141,557</u> | <u>(96,180)</u> | <u>(101,861)</u> | <u>(5,681)</u> |
| Net change in fund balance | 1,528,457 | (497,125) | 1,862,482 | 2,359,607 |
| Fund balance at beginning of year | 6,919,621 | 6,919,621 | 6,919,621 | |
| Prior year encumbrances appropriated | 529,800 | 529,800 | 529,800 | |
| Fund balance at end of year | <u>\$ 8,977,878</u> | <u>\$ 6,952,296</u> | <u>\$ 9,311,903</u> | <u>\$ 2,359,607</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 99,938 | \$ 48,308 |
| Receivables: | | |
| Accounts | | 235 |
| | | |
| Total assets. | 99,938 | \$ 48,543 |
| Liabilities: | | |
| Accounts payable. | | \$ 5,747 |
| Due to students | | 42,796 |
| | | |
| Total liabilities | | \$ 48,543 |
| Net Assets: | | |
| Held in trust for scholarships | 99,938 | |
| Total net assets | \$ 99,938 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 4,963 |
| Total additions. | 4,963 |
| Deductions: | |
| Scholarships awarded | 2,649 |
| Change in net assets | 2,314 |
| Net assets at beginning of year | 97,624 |
| Net assets at end of year. | \$ 99,938 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Fostoria City School District, Seneca County, Ohio (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/or federal guidelines.

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 284th largest in the State of Ohio (among 876 public and community school districts) in terms of enrollment. It is staffed by 145 non-certificated employees and 169 certificated full-time teaching personnel who provide services to 1,928 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool 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 have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

Ohio School Plan

The District participates in the Ohio School Plan (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of thirty-eight public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Center

The Vanguard-Sentinel Career Center (the "Center") is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Center is operated under the direction of a Board consisting of one representative from the Seneca East Local School District, one representative from twelve other participating school districts, and two representatives from the Fremont City School District. The degree of control exercised by any participating school district is limited to its representation on the Board. The Center is its own budgeting and taxing authority. Financial information can be obtained from Jay Valasek, Vanguard-Sentinel Career Center, 1306 Cedar Street, Fremont, Ohio 43420.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representative from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

Northwestern Ohio Special Educational Regional Resource Center

The Northwestern Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators and agencies regarding educational law and curriculum, and instruction for students with disabilities. The SERRC serves thirteen county areas in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six school districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consist of one elected representative of each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal officer). Members of the Board serve staggered two-year terms. Financial information is available from the Erie Ottawa Educational Service Center (fiscal agent), at 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

The District's basic financial statements consist of government-wide financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, other than agency funds. The specific timetable for budgetary documents is as follows:

1. Prior to January 15 of the preceding year, 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 taxpayer's comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts reflect the amounts in the final amended certificate issued during fiscal year 2007.

4. Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. The appropriation resolution by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

6. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts on the statements of budgetary comparisons represent the final appropriation amounts passed by the Board during the year.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and U.S. Treasury bills. Investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$577,119, which includes \$108,841 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The District does not possess infrastructure.

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

| <u>Description</u> | Governmental Activities <u>Estimated Lives</u> |
|----------------------------|--|
| Land improvements | 10 - 20 years |
| Buildings and improvements | 10 - 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 5 - 10 years |

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

L. Fund Reserves

The District reserves those portions of the fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, property tax advance unavailable for appropriation, textbooks, and budget stabilization. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the general fund include amounts required by state statute to be set-aside to create a reserve for budget stabilization and textbooks. See Note 17 for details.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Q. Interfund Activity

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

Interfund activity between governmental funds is eliminated in the Statement of Activities.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated to report accumulated depreciation of capital assets in accordance with the estimated lives per the District's capital asset policy. The adjustment for capital assets had the following effect on net assets as previously reported:

| | Governmental Activities |
|-----------------------------------|----------------------------|
| Net assets, June 30, 2006 | \$ 11,861,008 |
| Adjustment for capital assets | 98,998 |
| Restated net assets, July 1, 2006 | \$ 11,960,006 |

B. Deficit Fund Balances

Fund balances at June 30, 2007, included the following individual fund deficits:

| Nonmajor Funds | Deficit |
|----------------|---------|
| EMIS | \$ 33 |
| Preschool | 1,058 |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Interim monies to 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Escrow Agent

At fiscal year-end the District had \$112,607 in cash with escrow agent to accumulate the required sinking fund deposits for the retirement of the Qualified Zone Academy Bonds (see Note 11.D for detail). This amount is included on the financial statements as "Cash with Escrow Agent" and is included in investments below.

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$3,404,776. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$3,584,893 of the District's bank balance of \$3,984,673 was exposed to custodial risk as discussed below, while \$399,780 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | |
|------------------------|---------------------|------------------------------|------------------------|
| | | <u>6 months or less</u> | <u>13 to 18 months</u> |
| STAR Ohio | \$ 7,242,638 | \$ 7,242,638 | |
| FHLB | 1,761,639 | 713,938 | \$ 1,047,701 |
| FNMA | 499,297 | 249,845 | 249,452 |
| U.S. Treasury bills | 112,607 | 112,607 | |
| | <u>\$ 9,616,181</u> | <u>\$ 8,319,028</u> | <u>\$ 1,297,153</u> |

The weighted average maturity of investments is .20 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAA money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|---------------------|-------------------|
| STAR Ohio | \$ 7,242,638 | 75.32 |
| FHLB | 1,761,639 | 18.32 |
| FNMA | 499,297 | 5.19 |
| U.S. Treasury bills | 112,607 | 1.17 |
| | <u>\$ 9,616,181</u> | <u>100.00</u> |

**FOSTORIA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

| | |
|---|--------------------------|
| <u>Cash and investments per footnote</u> | |
| Carrying amount of deposits | \$ 3,404,776 |
| Investments | <u>9,616,181</u> |
| Total | <u>\$ 13,020,957</u> |
| <u>Cash and investments per Statement of Net Assets</u> | |
| Governmental activities | \$ 12,872,711 |
| Private-purpose trust funds | 99,938 |
| Agency funds | <u>48,308</u> |
| Total | <u>\$ 13,020,957</u> |

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2007, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|---------------|
| General Fund | Nonmajor Governmental | \$ 455,000 |

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

- B. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

| | <u>Amount</u> |
|--|-------------------|
| Transfers to Nonmajor Governmental funds from: | |
| General Fund | \$ 110,423 |
| Transfers to General Fund from: | |
| Nonmajor Governmental Funds | <u>20,636</u> |
| Total | <u>\$ 131,059</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006, and are collected in 2007 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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of January 1, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The Seneca, Hancock and Wood County Treasurers collect property tax on behalf of the District and periodically advance, to the District, its portion of the taxes collected. Second-half property tax payments collected by the counties by June 30, 2007, are available to finance fiscal year 2007 operations, the amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$817,262 in the general fund, \$68,357 in the bond retirement fund, and \$24,274 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$577,585 in the general fund, \$48,865 in the bond retirement fund, and \$17,071 in the permanent improvement fund.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

| | 2006 Second Half Collections | | 2007 First Half Collections | |
|--|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 128,241,760 | 59.53 | \$ 129,351,890 | 61.95 |
| Commercial/industrial real estate | 46,243,180 | 21.47 | 46,029,750 | 22.04 |
| Public Utility Personal | 8,600,070 | 3.99 | 8,592,960 | 4.12 |
| Tangible Personal Property | <u>32,343,671</u> | <u>15.01</u> | <u>24,821,484</u> | <u>11.89</u> |
| Total | <u>\$ 215,428,681</u> | <u>100.00</u> | <u>\$ 208,796,084</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation for: | | | | |
| Operations | \$ 55.43 | | \$ 55.43 | |
| Debt Service | 3.40 | | 3.40 | |
| Permanent Improvement | 1.73 | | 1.73 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007, consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

| | |
|-------------------|----------------------|
| Taxes | \$ 10,569,280 |
| Accounts | 2,571 |
| Accrued interest | 42,576 |
| Intergovernmental | <u>517,878</u> |
| Total | <u>\$ 11,132,305</u> |

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated at June 30, 2006 (See Note 3.A. for detail). The restatement had the following effect on capital assets as previously reported:

| | <u>Balance</u> <u>June 30, 2006</u> | <u>Adjustments</u> | <u>Restated</u> <u>Balance</u> <u>July 1, 2006</u> |
|---|--|--------------------|--|
| Governmental Activities | | | |
| <i>Capital assets, not being depreciated:</i> | | | |
| Land | \$ 264,497 | | \$ 264,497 |
| Total capital assets, not being depreciated | <u>264,497</u> | | <u>264,497</u> |
| <i>Capital assets, being depreciated:</i> | | | |
| Land improvements | 1,280,917 | | 1,280,917 |
| Buildings and improvement | 20,370,021 | | 20,370,021 |
| Furniture and equipment | 1,431,903 | | 1,431,903 |
| Vehicles | <u>1,073,994</u> | | <u>1,073,994</u> |
| Total capital assets, being depreciated | <u>24,156,835</u> | | <u>24,156,835</u> |
| <i>Less: accumulated depreciation</i> | <u>(13,945,291)</u> | <u>\$ 98,998</u> | <u>(13,846,293)</u> |
| Governmental activities capital assets, net | <u>\$ 10,476,041</u> | <u>\$ 98,998</u> | <u>\$ 10,575,039</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Restated Balance <u>July 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>June 30, 2007</u> |
|---|--|---------------------|--------------------|---------------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 264,497 | | | \$ 264,497 |
| Total capital assets, not being depreciated | <u>264,497</u> | | | <u>264,497</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,280,917 | | | 1,280,917 |
| Buildings and improvements | 20,370,021 | \$ 26,896 | | 20,396,917 |
| Furniture and equipment | 1,431,903 | 48,773 | \$ (41,099) | 1,439,577 |
| Vehicles | 1,073,994 | 133,938 | (72,040) | 1,135,892 |
| Total capital assets, being depreciated | <u>24,156,835</u> | <u>209,607</u> | <u>(113,139)</u> | <u>24,253,303</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land improvements | (996,541) | (34,975) | | (1,031,516) |
| Buildings and improvements | (10,989,008) | (489,129) | | (11,478,137) |
| Furniture and equipment | (1,213,086) | (71,890) | | (1,284,976) |
| Vehicles | (647,658) | (69,289) | 29,789 | (687,158) |
| Total accumulated depreciation | <u>(13,846,293)</u> | <u>(665,283)</u> | <u>29,789</u> | <u>(14,481,787)</u> |
| Governmental activities capital assets, net | <u>\$ 10,575,039</u> | <u>\$ (455,676)</u> | <u>\$ (83,350)</u> | <u>\$10,036,013</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 418,767 |
| Special | 21,604 |
| Vocational | 3,793 |
| <u>Support Services:</u> | |
| Pupil | 3,336 |
| Instructional staff | 29,947 |
| Administration | 23,625 |
| Fiscal | 871 |
| Operations and maintenance | 33,788 |
| Pupil transportation | 70,529 |
| Central | 2,706 |
| Extracurricular activities | 14,086 |
| Food service operations | 42,231 |
| Total depreciation expense | <u>\$ 665,283</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 9 - CAPITAL LEASES

In a prior year, the District entered into a lease for software equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Assets consisting of software equipment under capital lease have been not been capitalized in the statement of net assets because the software equipment individually is less than the District's capitalization threshold of \$5,000. A liability was recorded in the statement of net assets. Principal payments in fiscal year 2007 totaled \$62,000 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

| Fiscal Year Ending June 30, 2007 | Amount |
|---|------------|
| 2008 | \$ 74,713 |
| 2009 | 75,211 |
| 2010 | 75,591 |
| 2011 | 75,854 |
| Total | 301,369 |
| Less: amount representing interest | (27,369) |
| Present value of minimum lease payments | \$ 274,000 |

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for teachers, classified employees and administrators and 240 days for secretaries/fiscal services personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and secretaries/fiscal services personnel, 58 days for teachers and certified employees and up to a maximum 60 days for administrators.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

| | Interest Rate | Balance at June 30, 2006 | Additions | Reductions | Balance at June 30, 2007 | Amounts Due in One Year |
|------------------------------------|------------------|-----------------------------|-------------------|---------------------|-----------------------------|-------------------------------|
| Middle school refinancing bonds | 3.2-4.7% | \$ 6,092,217 | \$ 199,665 | \$ (635,000) | \$ 5,656,882 | \$ 660,000 |
| QZAB | 0.50% | 1,238,000 | | | 1,238,000 | |
| Total bonds payable | | <u>7,330,217</u> | <u>199,665</u> | <u>(635,000)</u> | <u>6,894,882</u> | <u>660,000</u> |
| HB 264 lighting loan | 4.80% | 57,078 | | (28,539) | 28,539 | 28,539 |
| Total loans payable | | <u>57,078</u> | | <u>(28,539)</u> | <u>28,539</u> | <u>28,539</u> |
| Capital leases | | 336,000 | | (62,000) | 274,000 | 64,000 |
| Compensated absences payable | | <u>1,190,753</u> | <u>46,491</u> | <u>(113,473)</u> | <u>1,123,771</u> | <u>50,252</u> |
| Total other long-term obligations | | <u>1,526,753</u> | <u>46,491</u> | <u>(175,473)</u> | <u>1,397,771</u> | <u>114,252</u> |
| Total | | <u>\$ 8,914,048</u> | <u>\$ 246,156</u> | <u>\$ (839,012)</u> | <u>\$ 8,321,192</u> | <u>\$ 802,791</u> |

- B. On January 1, 1999, the District issued middle school refinancing general obligation bonds. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the Statement of Net Assets. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$2,980,000. The interest rates on the current interest bonds range from 3.20% to 4.70%. The capital appreciation bonds mature on December 1, 2010 (effective interest 16.57%), December 1, 2011 (effective interest 16.52%), December 1, 2012 (effective interest 16.54%) and December 1, 2013 (effective interest 16.51%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2007 was \$413,505. A total of \$993,377 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2007.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2016.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

The following is a schedule of activity for fiscal 2007 on the middle school refinancing general obligation bonds:

| | Balance at June 30, 2006 | Additions | Reductions | Balance at June 30, 2007 |
|----------------------------|-----------------------------|------------|--------------|-----------------------------|
| Current interest bonds | \$ 4,885,000 | | \$ (635,000) | \$ 4,250,000 |
| Capital appreciation bonds | 1,207,217 | \$ 199,665 | | 1,406,882 |
| Total G.O. bonds | \$ 6,092,217 | \$ 199,665 | \$ (635,000) | \$ 5,656,882 |

The following is a summary of the future debt service requirements to maturity for the middle school refinancing general obligation bonds:

| Fiscal Year Ended | Current Interest Bonds | | | Capital Appreciation Bonds | | |
|----------------------|------------------------|--------------|--------------|----------------------------|----------|--------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2008 | \$ 660,000 | \$ 175,618 | \$ 835,618 | | | |
| 2009 | 685,000 | 147,703 | 832,703 | | | |
| 2010 | 715,000 | 118,124 | 833,124 | | | |
| 2011 | | 102,930 | 102,930 | \$ 745,000 | | \$ 745,000 |
| 2012 | | 102,930 | 102,930 | 745,000 | | 745,000 |
| 2013 - 2017 | 2,190,000 | 357,907 | 2,547,907 | 1,490,000 | | 1,490,000 |
| Total | \$ 4,250,000 | \$ 1,005,212 | \$ 5,255,212 | \$ 2,980,000 | | \$ 2,980,000 |

- C.** On August 21, 1998, the District obtained a loan in the amount of \$285,394 for the purpose of lighting for the District. The loan was issued for a ten-year period with final maturity during fiscal year 2008. The loan will be retired from the general fund.

The following is a summary of the District's future annual debt service requirements to maturity for the loans:

| Fiscal Year Ending | Principal | Interest | Total |
|-----------------------|-----------|----------|-----------|
| 2008 | \$ 28,539 | \$ 1,370 | \$ 29,909 |
| Total | \$ 28,539 | \$ 1,370 | \$ 29,909 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

D. During fiscal year 2006, the District issued \$1,238,000 in Energy Conservation Facility Bonds, Qualified Zone Academy Bonds (QZAB). The QZAB Series 2005 bonds mature September 23, 2015. The District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on September 23, in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date): except the final principal payment date shall be the maturity date:

| <u>September 23</u> <u>of year</u> | <u>Amounts</u> <u>Due</u> | <u>Amounts</u> <u>Deposited</u> |
|---------------------------------------|------------------------------|------------------------------------|
| 2006 | \$ 110,423 | \$ 110,423 |
| 2007 | 110,423 | |
| 2008 | 110,423 | |
| 2009 | 110,423 | |
| 2010 | 110,423 | |
| 2011 | 110,423 | |
| 2012 | 110,423 | |
| 2013 | 110,423 | |
| 2014 | <u>110,423</u> | |
| | <u>\$ 993,807</u> | <u>\$ 110,423</u> |

The QZAB Series 2005 bonds required stated annual interest payments. During fiscal year 2007 the District made \$110,423 in sinking fund deposits. The resources, being accumulated through the sinking fund, are reported in the debt service fund (a nonmajor fund). On the statement of net assets, the resources accumulated in the sinking fund are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term. The required sinking fund deposits are expected to be sufficient to retire the QZAB Series 2005 bonds upon maturity.

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$11,460,865 (including available funds of \$743,979), an unvoted debt margin excluding energy conservation of \$181,931 and an unvoted debt margin related to energy conservation of \$399,377.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the District contracted for the following insurance coverage:

Coverage provided by Ohio School Plan

| | |
|---|-------------|
| Educational General Liability | |
| Bodily Injury and Property Damage Limit – each occurrence | \$1,000,000 |
| General Aggregate Limit | 3,000,000 |
| Employee Benefits Liability | |
| Each Offence Limit | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| Employers' Liability - Stop Gap Coverage (Ohio) | |
| Liability | 1,000,000 |
| Educational Legal Liability | |
| Errors and Omissions Injury Limit | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| Employment Practices Injury Limit | 1,000,000 |
| Aggregate Limit | 3,000,000 |

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

For fiscal year 2007, the District participated in the Ohio School Plan (the "Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted teachers through Lafayette Life in the amount of \$25,000. All eligible part-time contracted employees are covered in the amount of \$12,500.

The District provides life insurance and accidental death and dismemberment insurance to classified employees who work 6 hours per day in the amount of \$20,000; for employees who work 4 to 6 hours per day in the amount of \$10,000; and for employees working less than 4 hours per day \$5,000.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - RISK MANAGEMENT – (Continued)

The District provides life insurance to administrators in the amount of \$50,000.

The District provides life insurance and accidental death and dismemberment insurance to secretaries and fiscal services personnel who work 6 hours per day or more \$30,000; 4 to 6 hours per day \$15,000; and less than 4 hours per day \$7,500.

The District has elected to provide a comprehensive medical benefits package to the employees through a fully insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. Medical Mutual Insurance Company administers the medical plan. The total monthly premium for medical is \$523.66 for single coverage and \$1,143.70 for family coverage. The District's portion of the monthly premium is \$471.29 for single coverage and \$1,029.33 for family coverage, which is paid out of the same fund that pays the salary for the employees. The employee monthly portion of the premium is \$52.37 for single coverage and \$114.37 for family coverage, which is withheld from their biweekly payroll.

Effective January 1, 2006, the Board had another medical plan referred to as the "Core Plan" available for employees to choose for a slightly lower premium. The Core Plan allows for a \$200 single and \$400 family deductible in network and a \$400 single and \$800 family out of network deductible. This medical plan was also carried by Medical Mutual Insurance Company. The total monthly premium for medical are \$477.39 for single coverage and \$1,042.59 for family coverage. The District's portion of the monthly premium is \$453.52 for single coverage and \$990.46 for family coverage, which is paid for out of the same fund that pays the salary of the employee. The employee portion for the Core Plan is \$23.87 for single coverage and \$52.13 for family coverage, which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully insured basis through Core Source. The total monthly premium is \$62.86 for single and \$62.86 for family coverage. This premium includes the employee portion, which is paid by the District.

The above employee portions of premiums for medical and dental insurance are for full-time employees. Part-time employees may pay pro-rated premiums for coverage.

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.).

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - RISK MANAGEMENT – (Continued)

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005, were \$258,632, \$249,042, and \$241,858 respectively; 43.67 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System of Ohio

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 13 - PENSION PLANS – (Continued)

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$1,086,150, \$1,089,265 and \$1,058,402 respectively; 81.65 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$2,048 made by the District and \$6,342 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 14 - POSTEMPLOYMENT 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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their 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. All benefit recipients pay a portion of 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, 2007, 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 \$83,550 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$127,827.

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 projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751, 207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ 1,862,482 |
| Net adjustment for revenue accruals | 288,000 |
| Net adjustment for expenditure accruals | 115,253 |
| Net adjustment for other sources/uses | 12,074 |
| Adjustment for encumbrances | 513,379 |
| GAAP basis | <u>\$ 2,791,188</u> |

NOTE 16 - CONTINGENCIES

A. Grants

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

B.

C. Litigation

The District is not involved in any litigation as either plaintiff or defendant.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilizator</u> |
|--|------------------|--------------------------------|--------------------------------|
| Set-aside cash balance as of June 30, 2006 | \$ 69,472 | | \$ 89,109 |
| Current year set-aside requirement | 309,260 | \$ 309,260 | |
| Qualifying disbursements | <u>(362,518)</u> | <u>(518,788)</u> | _____ |
| Total | <u>\$ 16,214</u> | <u>\$(209,528)</u> | <u>\$ 89,109</u> |
| Cash balance carried forward to FY 2008 | <u>\$ 16,214</u> | _____ | <u>\$ 89,109</u> |

Although the District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2007 follows:

| | |
|--|------------------|
| Amount restricted for budget stabilization | \$ 89,109 |
| Amount restricted for textbooks | <u>16,214</u> |
| Total restricted assets | <u>\$105,323</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Federal CFDA Number | Grant Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|---------------------------|-----------------|----------------|----------------------|----------------|---------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| <u>Nutrition Cluster:</u> | | | | | | |
| Summer Food Service Program for Children | 10.559 | 24PU-2006 | \$ 45,542 | | \$ 45,542 | |
| Total Summer Food Service Program for Children | | | <u>45,542</u> | | <u>45,542</u> | |
| School Breakfast Program | 10.553 | 05PU-2006 | 30,359 | | 30,359 | |
| | | 05PU-2007 | 86,726 | | 86,726 | |
| Total School Breakfast Program | | | <u>117,085</u> | | <u>117,085</u> | |
| National School Lunch Program | 10.555 | LLP1-2006 | 3,709 | | 3,709 | |
| | | LLP1-2007 | 20,460 | | 20,460 | |
| | | LLP4-2006 | 113,444 | | 113,444 | |
| | | LLP4-2007 | 309,046 | | 309,046 | |
| Total - National School Lunch Program | | | <u>446,659</u> | | <u>446,659</u> | |
| Total Nutrition Cluster | | | <u>609,286</u> | | <u>609,286</u> | |
| Child and Adult Care Food Program | 10.558 | CCMO-2007 | 22,136 | | 22,136 | |
| | | LUCP-2007 | 2,120 | | 2,120 | |
| Total Child and Adult Care Food Program | | | <u>24,256</u> | | <u>24,256</u> | |
| Food Donation | 10.550 | | | \$ 56,946 | | \$ 56,946 |
| Total U.S. Department of Agriculture | | | <u>633,542</u> | <u>56,946</u> | <u>633,542</u> | <u>56,946</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Federal CFDA Number | Grant Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|---------------------------|-----------------|------------------|----------------------|------------------|---------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Adult Education - State Grant Program | 84.002 | ABS1-2006 | \$ (5,852) | | \$ 7,934 | |
| | | ABS1-2007 | 70,896 | | 64,371 | |
| Total - Adult Education - State Grant Program | | | 65,044 | | 72,305 | |
| Title I Grants to Local Educational Agencies | 84.010 | C1S1-2006 | 17,180 | | 23,334 | |
| | | C1S1-2006 | 436,489 | | 369,962 | |
| Total - Title I Grants to Local Educational Agencies | | | 453,669 | | 393,296 | |
| <u>Special Education Cluster:</u> | | | | | | |
| Special Education - Grants to States | 84.027 | 6BSF-2006 | 6,975 | | 52,798 | |
| | | 6BSF-2007 | 627,856 | | 879,545 | |
| Total - Special Education Grants to States | | | 634,831 | | 932,343 | |
| Special Education - Preschool Grants | 84.173 | PGS1-2006 | 2,171 | | 2,114 | |
| | | PGS1-2007 | 51,635 | | 44,724 | |
| Total - Special Education Preschool Grants | | | 53,806 | | 46,838 | |
| Total Special Education Cluster | | | 688,637 | | 979,181 | |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | DRS1-2006 | (224) | | | |
| | | DRS1-2007 | 5,583 | | 2,366 | |
| Total - Safe and Drug Free Schools and Communities - State Grants | | | 5,359 | | 2,366 | |
| Education for Homeless Children and Youth | 84.196 | HCS1-2007 | 6,300 | | 3,580 | |
| Twenty-First Century Community Learning Centers | 84.287 | T1A2-2006 | 5,000 | | 5,000 | |
| | | T1S1-2007 | 300,000 | | 213,620 | |
| Total - Twenty-First Century Community Learning Centers | | | 305,000 | | 218,620 | |
| State Grants for Innovative Programs | 84.298 | C2S1-2006 | 956 | | 2,508 | |
| | | C2S1-2007 | 367 | | | |
| Total - State Grants for Innovative Programs | | | 1,323 | | 2,508 | |
| Education Technology State Grants | 84.318 | TJS1-2006 | 293 | | | |
| | | TJS1-2007 | 5,277 | | 4,854 | |
| Total - Education Technology State Grants | | | 5,570 | | 4,854 | |
| English Language Acquisition Grants | 84.365 | T3S1-2007 | 15,544 | | 15,236 | |
| Improving Teacher Quality State Grants | 84.367 | TRS1-2006 | 3,951 | | 9,474 | |
| | | TRS1-2007 | 182,908 | | 146,934 | |
| Total - Improving Teacher Quality State Grants | | | 186,859 | | 156,408 | |
| Direct Assistance | | | | | | |
| Teaching American History Grants | 84.215X | 2005 | 40,462 | | 71,378 | |
| | | 2006 | 117,555 | | 110,880 | |
| | | 2007 | 265,722 | | 274,838 | |
| Total - Teaching American History Grants | | | 423,739 | | 457,096 | |
| Total U.S. Department of Education | | | 2,157,044 | | 2,305,450 | |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Federal CFDA Number | Grant Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|---------------------------|-----------------|---------------------------|----------------------|---------------------------|---------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed Through Seneca County Department of Job and Family Services</i> | | | | | | |
| Temporary Assistance for Needy Families | 93.558 | | \$ 71,282 | | \$ 49,577 | |
| Total U. S. Department of Health and Human Services | | | <u>71,282</u> | | <u>49,577</u> | |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Learn and Serve America School Community Based Program | 94.004 | SVS1-2006 | 573 | | 14,305 | |
| Total Corporation for National and Community Service | | | <u>573</u> | | <u>14,305</u> | |
| Total Federal Awards Receipts and Expenditures | | | <u><u>\$2,862,441</u></u> | <u>\$ 56,946</u> | <u><u>\$3,002,874</u></u> | <u>\$ 56,946</u> |

The accompanying notes are an integral part of this schedule.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - MATCHING REQUIREMENTS

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider item 2007-002 in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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www.auditor.state.oh.us

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated March 13, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 13, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 13, 2008



Mary Taylor, CPA

Auditor of State

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

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

Compliance

We have audited the compliance of Fostoria City School District, Seneca County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Fostoria City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007. In a separate letter to the District's management dated March 13, 2008, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 13, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 13, 2008

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I Grants to Local Educational Agencies CFDA #84.010 Nutrition Cluster: School Breakfast Program CFDA # 10.553 National School Lunch Program CFDA #10.555 Summer Food Service Program for Children CFDA #10.559 Special Education Cluster: Special Education – Grants to States CFDA # 84.027 Special Education – Preschool Grants CFDA # 84.173 Teaching American History Grants (CFDA # 84.215X) |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

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

FINDING NUMBER 2007-001

Finding for Recovery Repaid Under Audit

The Board of Education approved a supplemental contract for Foreign Language Co-Advisor, Esther Garcia-Tio, in the amount of \$305.50 effective for the period 8-1-06 thru 7-31-07. Compensation paid to Esther Garcia-Tio as the Foreign Language Co-Advisor was in the amount of \$611.00. Consequently, Esther Garcia-Tio was overpaid in the amount of \$305.50.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Esther Garcia-Tio, Foreign Language Co-Advisor in the amount of \$305.50, and in favor of Fostoria City School District – Seneca County, in the amount of \$305.50.

This finding was repaid by Esther Garcia-Tio as follows and credited to the District's General Fund:

- \$40 paid on December 6, 2007
- \$40 paid on December 20, 2007
- \$40 paid on January 3, 2008
- \$40 paid on January 17, 2008
- \$145.50 on January 31, 2008

Officials Response: Treasurer stated that improvements in payroll have been made in FY08.

FINDING NUMBER 2007-002

Significant Deficiency

Student Activity Funds

Fund raiser "Sales Project Potential Sheets" were not prepared for seven of the nineteen fundraisers reviewed. This weakness could allow fundraisers to be conducted contrary to the wishes of the Board and reduces controls. To improve controls over student activities, we recommend the "Sales Project Potential Sheets" be completed for all student activity fund raisers and sales. The Treasurer should review the budgets and "Sales Project Potential Sheets" for completeness and accuracy and initial these forms to indicate approval.

The French Club conducts candy sales of unsold candy from prior years and current year candy purchases. An inventory over the unsold candy was not performed at the end of fiscal year 2006 or at any time during fiscal year 2007. Therefore, no supporting documentation for candy sales revenue totaling \$1,085 during fiscal year 2007 could be obtained. This weakness limits the control and accountability over candy sales revenue, increases the possibility of funds being misappropriated, allows errors or irregularities to go undetected and could lead to candy being lost or stolen. To improve controls over candy sales, we recommend the French Club Advisor maintain an inventory of the candy items. It is further recommended the treasurer periodically (perhaps semiannually) perform a physical inspection/count of the candy items and compare those results to the inventory records.

Officials Response: Treasurer stated that improvements in student activities have been made in FY08.

3. FINDINGS FOR FEDERAL AWARDS

None

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2006-001 | Finding for Recovery against Yearbook Advisor and Vendor in the amount of \$45 | Yes | |
| 2006-002 | Finding for Recovery against Yearbook Advisor in the amount of \$125 | Yes | |
| 2006-003 | Finding for Recovery Repaid Under Audit against Yearbook Advisor and Vendors in the amount of \$1,080 | Yes | |
| 2006-004 | Finding for Recovery Repaid Under Audit against former Treasurer in the amount of \$1,148.85 | Yes | |
| 2006-005 | Ohio Revised Code §5705.412 – 412 certificates not maintained | Yes | |
| 2006-006 | Ohio Revised Code §3319.12 and 3319.082 for material weakness regarding payroll | Yes | |
| 2006-007 | Material Weakness – Student Activities | No | Partially corrected – repeated as Finding # 2007-002 |



Mary Taylor, CPA
Auditor of State

FOSTORIA CITY SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2008**