



Dave Yost • Auditor of State

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fort Recovery Local School District
Mercer County
400 E. Butler Street
PO Box 604
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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.

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, Ohio, as of June 30, 2011, and the respective changes in cash financial position, thereof and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 16, during 2011, the School District adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27 2012, on our consideration of the School 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.

We conducted our audit to opine on the School District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets and, governmental activities. The Schedule of Federal Awards Receipts and Expenditures (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However, these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Dave Yost
Auditor of State

February 27, 2012

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The discussion and analysis of Fort Recovery Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- For governmental activities, net assets increased \$356,756, which represents a 10 percent increase from 2010. Net assets of business-type activities increased \$32,001 or 17.5 percent from 2010.
- General receipts accounted for \$8,067,868 in receipts or 83 percent of all governmental receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for \$1,619,021 or 17 percent of total governmental receipts of \$9,686,889.
- The General Fund, which is a major fund, had \$8,227,490 in receipts and \$7,849,321 in disbursements. The General Fund's balance increased \$292,315 from 2010.
- The Permanent Improvement's fund balance increased \$107,829 during fiscal year 2011 due to a transfer from the General Fund of \$170,000, and less spending during fiscal year 2011.
- Net assets for business-type activities increased \$32,001. Although cash disbursements increased 1%, cash receipts were able to cover them.
- For fiscal year 2011, the School District implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Implementing this statement resulted in the Termination Benefits and the Public School Support Fund being reclassified from special revenue to being combined with the General Fund.

Using this Annual 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 Fort Recovery Local School 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of Fort Recovery Local School District, the General Fund is by far the most significant fund.

The notes to the financial statements are an integral part of the district-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the School 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 School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question.

The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental and business-type program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School 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 School District reports governmental and business-type activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. Business-type activities are provided on a charge for goods or services basis to recover all of the disbursements of the good or services provided. The School District's business-type activities include food service operations and the preschool program.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has three enterprise funds, the Food Service Fund, Adult Education and the Preschool Fund. The Adult Education Fund had no activity during fiscal year 2011.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2011 compared to fiscal year 2010 on a cash basis:

**(Table 1)
Net Assets**

	Governmental Activities		Business-Type Activities	
	2010 (Restated)	2011	2010	2011
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$3,420,864	\$3,777,620	\$182,497	\$214,498
Net Assets:				
Restricted for:				
Capital Projects	303,228	411,056		
Debt Service	174,148	200,293		
Other Purposes	253,117	183,585		
Unrestricted	2,690,371	2,982,686	182,497	214,498
Total Net Assets	\$3,420,864	\$3,777,620	\$182,497	\$214,498

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

As mentioned previously, net assets of governmental activities increased \$356,756 or 10 percent from fiscal year 2010. The School District transferred \$170,000 from its General Fund to its Permanent Improvement capital projects fund which increased net assets restricted for capital projects. Unrestricted net assets increased \$292,315 in the general fund during fiscal year 2011.

Table 2 reflects the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

**(Table 2)
Changes in Net Assets**

	Governmental Activities 2010	Governmental Activities 2011	Business- Type Activities 2010	Business- Type Activities 2011
Receipts:				
Program Receipts:				
Charges for Services	\$ 572,458	\$ 509,281	\$376,383	\$375,483
Operating Grants and Contributions	922,313	1,109,740	78,194	73,114
Capital Grants and Contributions				
Total Program Receipts	<u>1,494,771</u>	<u>1,619,021</u>	<u>454,577</u>	<u>448,597</u>
General Receipts:				
Property and Income Taxes	3,415,291	3,528,849		
Grants and Entitlements Not Restricted to Specific Programs	4,669,568	4,504,702		
Refunding Bonds Issued (includes premium)	1,745,485			
All Other	80,193	34,317	3,628	582
Total General Receipts	<u>9,910,537</u>	<u>8,067,868</u>	<u>3,628</u>	<u>582</u>
Total Receipts	<u>11,405,308</u>	<u>9,686,889</u>	<u>458,205</u>	<u>449,179</u>
Disbursements:				
Instruction	5,900,669	5,858,563		
Support Services	2,902,748	2,921,867		
Operation of Non-Instructional Services	1,900	2,800		
Extracurricular Activities	326,985	311,500		
Debt Service	328,567	235,403		
Payment to Refunded Bond Escrow Agent	1,677,007			
Food Services			341,679	343,311
Preschool Program			70,121	73,867
Total Disbursements	<u>11,137,876</u>	<u>9,330,133</u>	<u>411,800</u>	<u>417,178</u>
Increase in Net Assets	267,432	356,756	46,405	32,001
Net Assets, Beginning of Year	3,153,432	3,420,864	136,092	182,497
Net Assets, End of Year	<u>\$3,420,864</u>	<u>\$3,777,620</u>	<u>\$182,497</u>	<u>\$214,498</u>

Governmental Activities

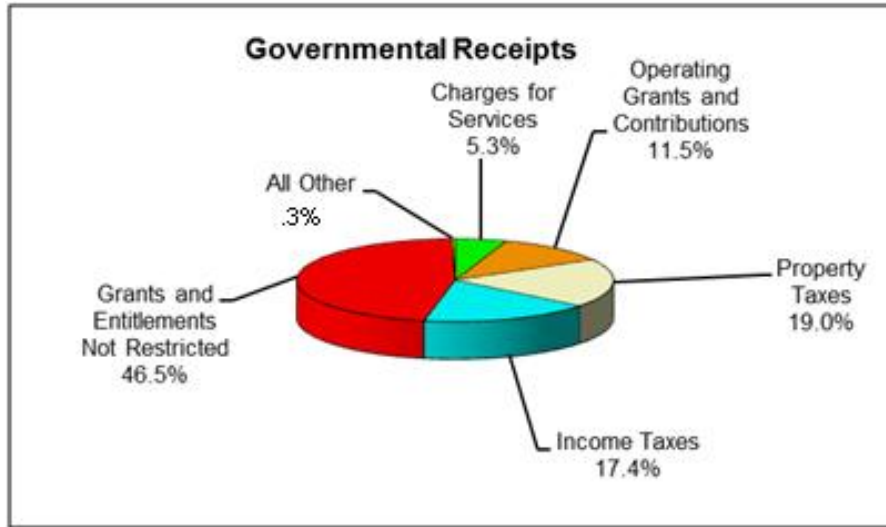
Several sources fund the School District's governmental activities with the School Foundation being the largest contributor. Property and income taxes generated \$3.5 million. The combination of taxes and intergovernmental funding not restricted provided 82.9 percent of governmental funding for fiscal year 2011. The School District monitors both of these sources very closely for fluctuations.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

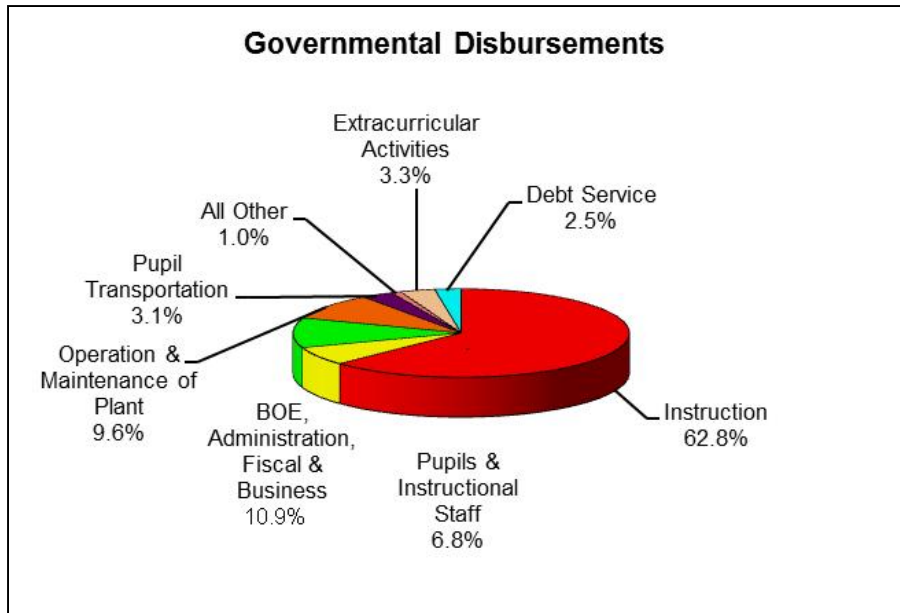
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

During fiscal year 2010, the School District refunded a portion of its 1998 School Improvement General Obligation Bonds. Debt service disbursements decreased for fiscal year 2011 as a result of lower interest rates.

Total disbursements, excluding those disbursements for the refunding of bonds, have decreased from 2010 to 2011. The School District continued to streamline staffing positions throughout the School District. In addition, the Board of Education and the Fort Recovery Education Association negotiated a zero percent salary increase for fiscal year 2011.



Instruction comprises 62.8% of the School District's disbursements. Support services make up 31.4% of disbursements.



**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 14 you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement.

A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2010	Net Cost of Services 2010	Total Cost Of Services 2011	Net Cost of Services 2011
Instruction	\$5,900,669	(\$4,847,931)	\$5,858,563	(\$4,654,636)
Support Services:				
Pupils and Instructional Staff	614,991	(483,013)	631,305	(499,604)
Board of Education, Administration, Fiscal and Business	1,046,410	(927,393)	1,019,424	(906,500)
Operation and Maintenance of Plant	934,511	(903,049)	899,498	(898,646)
Pupil Transportation	224,959	(214,370)	285,155	(260,059)
Central	81,877	(74,561)	86,485	(72,885)
Operation of Non-Instructional Services	1,900		2,800	
Extracurricular Activities	326,985	(187,214)	311,500	(183,379)
Debt Service, includes payment to bond escrow	2,005,574	(2,005,574)	235,403	(235,403)
Total Disbursements	<u>\$11,137,876</u>	<u>(\$9,643,105)</u>	<u>\$9,330,133</u>	<u>(\$7,711,112)</u>

The dependence upon property tax receipts and income tax receipts is apparent, as over 83 percent of governmental activities are supported through these general receipts.

Business-Type Activities

The School District's most significant business-type activity includes the operation of the food service program. Business-type activities had an increase of net assets of \$32,001 during fiscal year 2011. Although Food Service operations were able to cover costs during fiscal year 2011, the Preschool Program revenues did not cover its expenses. The School District will continue to monitor the charges for these services to ensure costs are covered.

The School District's Funds

Total governmental funds had receipts of \$9,675,023 and disbursements of \$9,330,133. Contributing to the increase in fund balances was the continued cost savings measures for material and supplies, professional development and personal services that the School District implemented during fiscal year 2010, and a continued growth in property in income tax receipts.

The Permanent Improvement fund balance increased \$107,829 as a result of a transfer of \$170,000 from the General Fund during fiscal year 2011 as well as a decrease in expenses in preparation for the possible high school renovation project.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon 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 2011, the School District did modify its General Fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For fiscal year 2011, collections for both property and income taxes were higher than anticipated. However, this was offset by less than anticipated receipts for intergovernmental, interest and tuition and fees.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently keep track of its capital assets and infrastructure for financial reporting purposes. The School District tracks its capital assets for inventory and insurance purposes only.

Debt

At June 30, 2011, the School District's outstanding debt included \$1,955,938 in general obligation bonds issued for improvements to buildings and structures. The amount due in fiscal year 2012 is \$173,143.

For further information regarding the School District's debt, refer to Note 11 to the basic financial statements.

Current Issues

Fort Recovery Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District still relies heavily on the state school foundation program. School District residents passed an additional .5 percent continuing school district income tax issue in May 2005 for general operating purposes, and most recently, on November 8, 2011, passed a 2.7 mill property tax for School Improvement Bonds for renovations at the high school.

As a result of the levy passing and the renovations being planned at the high school, the District will be issuing \$3,400,000 in Bond Anticipation Notes in December 2011 in anticipation of issuing \$3,400,000 in School Improvement Bonds within the next 4 to 6 months.

Real estate tax collections have shown higher than normal increases over the past two years due to the increase in CAUV rates, and are expected to increase again in 2012. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall income generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and tax at 1.0 mil would pay \$35 annually in taxes. If three year later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to property owners) the effective tax rate would become .5 mills and the owner would still pay \$35. However, we are presently are at the 20 mill floor, which does allow for increases in some situations.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed some of its tax receipts growth toward school districts with little property tax wealth (which is like our School District). It has been determined that the State has not met the standards of the Ohio Supreme Court.

The State funding for schools is based on several factors all of which are subject to deliberations and approval of the Ohio General Assembly. School funding has been set as part of the State's biennial budget for fiscal years 2012 and 2013, and these amounts are reflected in the Fort Recovery Local School District's Five Year Forecast. However, due to the economic conditions within the State and the unknown events that may arise, the level at which the State will fund schools is still uncertain. A decrease in State funding equal to one percent of the School District's foundation revenue would decrease Unrestricted State Grants-in-Aid by approximately \$45,000 for the current fiscal year and each fiscal year thereafter. The cumulative effect of a one percent decrease in State funding on fund balance in fiscal year 2016 is a decrease of \$225,000. This would have a significant impact on the School District.

All scenarios required management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Lori Koch, Treasurer of Fort Recovery Local School District, 400 E. Butler Street, Fort Recovery, OH 45846.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2011**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$3,777,620	\$214,498	\$3,992,118
Total Assets	<u>3,777,620</u>	<u>214,498</u>	<u>3,992,118</u>
Net Assets:			
Restricted for:			
Capital Projects	411,056		411,056
Debt Service	200,293		200,293
Other Purposes	183,585		183,585
Unrestricted	2,982,686	214,498	3,197,184
Total Net Assets	<u>\$3,777,620</u>	<u>\$214,498</u>	<u>\$3,992,118</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Program Cash Receipts</u>		
	<u>Cash</u> <u>Disbursements</u>	<u>Charges for</u> <u>Services and Sales</u>	<u>Operating Grants,</u> <u>Contributions</u> <u>and Interest</u>
Governmental Activities:			
Instruction			
Regular	\$3,912,232	\$284,797	\$285,883
Special	1,535,545	21,111	475,964
Vocational	405,852	2,557	133,615
Other	4,934		
Support Services			
Pupil	273,279	65,852	8,084
Instructional Staff	358,026	8	57,757
Board of Education	16,659		
Administration	726,190	815	94,529
Fiscal	269,542		17,580
Business	7,033		
Operation and Maintenance of Plant	899,498	852	
Pupil Transportation	285,155	6,137	18,959
Central	86,485		13,600
Operation of Non-Instructional Services	2,800		2,800
Extracurricular Activities	311,500	127,152	969
Debt Service	235,403		
Total Governmental Activities	<u>9,330,133</u>	<u>509,281</u>	<u>1,109,740</u>
Business-Type Activities:			
Food Services	343,311	313,736	73,114
Preschool Program	73,867	61,747	
Total Business-Type Activities	<u>417,178</u>	<u>375,483</u>	<u>73,114</u>
Totals	<u>\$9,747,311</u>	<u>\$884,764</u>	<u>\$1,182,854</u>

General Receipts:

Property Taxes Levied for:

General Purposes
Debt Service
Classroom Facilities & Maintenance
Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Gifts and Donations not Restricted to Specific Programs
Interest
Miscellaneous
Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$3,341,552)		(\$3,341,552)
(1,038,470)		(1,038,470)
(269,680)		(269,680)
(4,934)		(4,934)
(199,343)		(199,343)
(300,261)		(300,261)
(16,659)		(16,659)
(630,846)		(630,846)
(251,962)		(251,962)
(7,033)		(7,033)
(898,646)		(898,646)
(260,059)		(260,059)
(72,885)		(72,885)
(183,379)		(183,379)
(235,403)		(235,403)
<u>(7,711,112)</u>		<u>(7,711,112)</u>
	\$43,539	43,539
	(12,120)	(12,120)
	<u>31,419</u>	<u>31,419</u>
<u>(7,711,112)</u>	<u>31,419</u>	<u>(7,679,693)</u>
1,569,919		1,569,919
235,593		235,593
33,678		33,678
1,689,659		1,689,659
4,504,702		4,504,702
4,466		4,466
11,977		11,977
17,874	582	18,456
<u>8,067,868</u>	<u>582</u>	<u>8,068,450</u>
356,756	32,001	388,757
<u>3,420,864</u>	<u>182,497</u>	<u>3,603,361</u>
<u>\$3,777,620</u>	<u>\$214,498</u>	<u>\$3,992,118</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and Cash Equivalents	\$2,982,686	\$411,056	\$383,878	\$3,777,620
Total Assets	<u>2,982,686</u>	<u>411,056</u>	<u>383,878</u>	<u>3,777,620</u>
Fund Balances:				
Non-spendable	2,074			2,074
Restricted			383,878	383,878
Committed	316,538			316,538
Assigned	589,505	411,056		1,000,561
Unassigned	2,074,569			2,074,569
Total Fund Balances	<u>\$2,982,686</u>	<u>\$411,056</u>	<u>\$383,878</u>	<u>\$3,777,620</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts:				
Property Taxes	\$1,569,919		\$269,271	\$1,839,190
Income Taxes	1,689,659			1,689,659
Intergovernmental	4,555,545		1,010,716	5,566,261
Interest	11,977			11,977
Tuition and Fees	249,478			249,478
Rent	850			850
Extracurricular Activities	122,361		125,400	247,761
Gifts and Donations	12,550		40,097	52,647
Charges for Services	815			815
Miscellaneous	14,336	\$1,869	180	16,385
Total Receipts	<u>8,227,490</u>	<u>1,869</u>	<u>1,445,664</u>	<u>9,675,023</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,569,868		342,364	3,912,232
Special	1,062,620		472,925	1,535,545
Vocational	388,784	1,268	15,800	405,852
Other	4,934			4,934
Support Services:				
Pupil	273,279			273,279
Instructional Staff	298,697		59,329	358,026
Board of Education	16,659			16,659
Administration	631,661		94,529	726,190
Fiscal	255,817		13,725	269,542
Business	7,033			7,033
Operation and Maintenance of Plant	847,952	22,347	29,199	899,498
Pupil Transportation	225,770	40,425	18,960	285,155
Central	72,885		13,600	86,485
Operation of Non-Instructional Services			2,800	2,800
Extracurricular Activities	193,362		118,138	311,500
Capital Outlay				
Debt Service:				
Principal Retirement			175,000	175,000
Interest			60,403	60,403
Total Disbursements	<u>7,849,321</u>	<u>64,040</u>	<u>1,416,772</u>	<u>9,330,133</u>
Excess of Receipts Over / (Under) Disbursements	<u>378,169</u>	<u>(62,171)</u>	<u>28,892</u>	<u>344,890</u>
Other Financing Sources (Uses):				
Operating Transfers - In		170,000		170,000
Advances - In	162,752		85,752	248,504
Refund of Prior Year Expenditures	7,146			7,146
Operating Transfers - Out	(170,000)			(170,000)
Advances - Out	(85,752)		(162,752)	(248,504)
Proceeds from Sale of Assets			4,720	4,720
Total Other Financing (Uses) Sources	<u>(85,854)</u>	<u>170,000</u>	<u>(72,280)</u>	<u>11,866</u>
Net Change in Fund Balances	292,315	107,829	(43,388)	356,756
Fund Balances Beginning - Restated (Note 16)	<u>2,690,371</u>	<u>303,227</u>	<u>427,266</u>	<u>3,420,864</u>
Fund Balances End of Year	<u>\$2,982,686</u>	<u>\$411,056</u>	<u>\$383,878</u>	<u>\$3,777,620</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Property Taxes	\$1,532,739	\$1,532,739	\$1,569,919	\$37,180
Income Taxes	1,615,574	1,615,574	1,689,659	74,085
Intergovernmental	4,600,409	4,600,409	4,555,545	(44,864)
Interest	34,461	34,461	11,977	(22,484)
Tuition and Fees	313,151	313,151	249,478	(63,673)
Rent	850	850	850	
Gifts and Donations	10,805	10,805	4,466	(6,339)
Charges for Service	732	732	815	83
Miscellaneous	6,219	6,219	7,460	1,241
Total Receipts	<u>8,114,940</u>	<u>8,114,940</u>	<u>8,090,169</u>	<u>(24,771)</u>
Disbursements:				
Current:				
Instruction:				
Regular	4,023,034	4,023,034	3,505,024	518,010
Special	1,237,290	1,237,290	1,090,649	146,641
Vocational	344,278	409,278	386,897	22,381
Other	8,485	16,485	6,544	9,941
Support Services:				
Pupil	193,218	208,218	203,692	4,526
Instructional Staff	365,784	365,784	307,555	58,229
Board of Education	23,630	23,630	18,555	5,075
Administration	754,020	754,020	632,333	121,687
Fiscal	291,876	303,876	266,306	37,570
Business	9,200	10,200	7,321	2,879
Operation and Maintenance of Plant	931,144	963,144	911,522	51,622
Pupil Transportation	264,370	264,370	240,499	23,871
Central	83,127	83,127	74,956	8,171
Extracurricular Activities	212,678	213,678	191,741	21,937
Total Disbursements	<u>8,742,134</u>	<u>8,876,134</u>	<u>7,843,594</u>	<u>1,032,540</u>
Excess of Receipts Over (Under) Disbursements	<u>(627,194)</u>	<u>(761,194)</u>	<u>246,575</u>	<u>1,007,769</u>
Other Financing Sources (Uses):				
Proceeds of Sale of Capital Assets	45	45		(45)
Advances - In			162,752	162,752
Refund of Prior Year Expenditures			7,146	7,146
Operating Transfers - Out	(170,000)	(170,000)	(170,000)	
Advances - Out	(90,000)	(90,000)	(95,752)	(5,752)
Total Other Financing Sources (Uses)	<u>(259,955)</u>	<u>(259,955)</u>	<u>(95,854)</u>	<u>164,101</u>
Net Change in Fund Balance	(887,149)	(1,021,149)	150,721	1,171,870
Fund Balance Beginning of Year	2,127,375	2,127,375	2,127,375	
Prior Year Encumbrances Appropriated	<u>172,383</u>	<u>172,383</u>	<u>172,383</u>	
Fund Balance End of Year	<u>\$1,412,609</u>	<u>\$1,278,609</u>	<u>\$2,450,479</u>	<u>\$1,171,870</u>

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets:	
Cash and Cash Equivalents	\$214,498
Total Assets	<u>214,498</u>
Net Assets:	
Unrestricted	214,498
Total Net Assets	<u>\$214,498</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS -
CASH BASIS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activity
	Enterprise
Operating Receipts:	
Charges for Services	\$313,736
Tuition and Fees	61,747
Other Operating Revenues	582
Total Operating Receipts	376,065
Operating Disbursements:	
Salaries	179,046
Fringe Benefits	46,471
Purchased Services	5,620
Materials and Supplies	184,849
Capital Outlay	600
Other	592
Total Operating Disbursements	417,178
Operating Loss	(41,113)
Non-Operating Receipts:	
Federal and State Subsidies	73,114
Change in Net Assets	32,001
Net Assets Beginning of Year	182,497
Net Assets End of Year	\$214,498

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$75,596
Total Assets	<u>75,596</u>
Net Assets:	
Held in Trust for Students	61,038
Held in Trust for Employees	14,558
Total Net Assets	<u>\$75,596</u>

See accompanying notes to the financial statements.

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**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in a rural community in Northwest Ohio. The School District is located in Mercer County. The School District is staffed by 39 non-certificated employees and 70 certificated full-time teaching personnel who provide services to 968 students and other community members.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fort Recovery Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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

The School District participates in six jointly governed organizations, three insurance purchasing pools and one related organization. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Northwest Ohio Area Computer Services Cooperative
- Mercer County Local Professional Development Committee
- West Central Ohio Special Education Regional Resource Center
- West Central Ohio Regional Professional Development Center
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

Ohio Association of School Business Officials Workers' Compensation Group
Rating Plan
Mercer Auglaize Employee Benefit Trust
Ohio School Insurance Plan

Related Organization:

Fort Recovery Public Library

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental and enterprise (business-type activities) fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided as governmental, proprietary or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund – The Permanent Improvement Fund accounts for transfers from the General Fund that will be used for the acquisition, construction, or improvement of capital facilities.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Proprietary Funds

The School District classifies funds financed primarily from user charges for goods or services as proprietary. The School District's proprietary funds consist of enterprise funds.

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's enterprise funds accounts for the adult education program, preschool program and lunch room funds.

3. Fiduciary Funds

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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature. The School District only maintains agency funds which account for the Section 125 plan and those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials and the fund financial statements for business-type activities would be presented on the accrual basis of accounting.

D. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Cash and Cash Equivalents" on the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, the School District invested in nonnegotiable certificates of deposits, repurchase agreements and Fifth Third's Institutional Government Money Market Mutual Fund.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2011 was \$11,977 which included \$3,195 assigned from other School District funds.

E. Inventory and Prepaid Items

On a cash basis of accounting, inventories of supplies and prepaid items are reported as disbursements when paid.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

G. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or laws through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

1. Non-spendable

The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The 'not in spendable form' includes items that are not expected to be converted to cash.

2. Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

3. Committed

The committed classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

4. Assigned

Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, unassigned) amounts are available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned and unassigned amounts when expenditures are incurred for purposes for which amount in any of the unrestricted fund balance classifications can be used.

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Non-exchange flows of cash from one fund to another fund are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

N. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the School District, these receipts are tuition for preschool and sales for food service. Operating disbursements are necessary costs incurred to provide the good or service that are the primary activity of the fund. Receipts and disbursements that do not meet these definitions are reported as non-operating.

O. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund. The legal level of control for the general fund is at the two digit function level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and cash basis are

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Cash Basis	\$292,315
Encumbrances	(164,332)
Perspective Differences	<u>22,738</u>
Budgetary Basis	<u><u>\$ 150,721</u></u>

4. DEPOSITS AND INVESTMENT

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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 has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENT (Continued)

Interim monies held by the School District can be deposited or invested in the following securities:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School 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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENT (Continued)

At fiscal year-end, the carrying amount of the School District's deposits was \$1,075,653 and the bank balance was \$1,233,138. \$859,394 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$373,744 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

B. Investments

Investments are reported at fair value. As of June 30, 2011, the School District's investment included \$1,720,228 in repurchase agreements and \$1,271,833 in Fifth Third's Institutional Government Money Market Fund.

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements of ongoing operations. The average maturity of the Fifth Third Institutional Government Money Market Mutual Fund is 51 days.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. The Fifth Third Institutional Government Money Market Mutual Fund carries an S&P credit rating of AAAm.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

The School District's \$1,720,228 investment in repurchase agreements is exposed to credit risk due to the underlying securities are held by the investment's counterparty or its trust department or agent, not in the School District's name.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District's investment percentage for repurchase agreements and the Fifth Third Institutional Government Money Market Mutual Fund are 57% and 43%, respectively.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied against local inter-change telephone companies in the prior calendar year on assessed values as of December 31, of that calendar year, at tax rates determined in the preceding year. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The percentages for telecommunications were reduced from 5 percent for 2010 and zero percent for 2011.

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

The School District receives property taxes from Mercer and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2011 taxes were collected are:

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$82,630,020	99.67%	\$83,743,540	96.45%
Public Utility Personal	272,930	0.33%	3,085,550	3.55%
Total	\$82,902,950	100.00%	\$86,829,090	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$31.40		\$31.30	

6. INCOME TAXES

The School District levies a voted tax of 1.5 percent for general operations on the income of residents and of estates. An original one percent tax was effective on January 1, 1991, with an additional .5 percent tax passed in May 2005. This is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. RISK MANAGEMENT

A. Property and Liability

The School 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 2011, the School District's property, fleet coverage, and liability insurance was provided by Ohio Casualty.

Coverage provided is as follows:

Building and Business Personal	
Property Coverage (\$1,000 deductible)	\$28,097,218
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Commercial General Liability:	
Each Occurrence	1,000,000
Medical Expense – any one person/each accident	15,000
General Aggregate Limit	2,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Aggregate 2,000,000	
Educational Legal Liability:	
Errors and Omissions Injury – each wrongful act (\$2,500 deductible)	1,000,000
Errors and Omissions Injury Aggregate	1,000,000
Sexual Misconduct and Molestation Liability:	
Each Offense (\$2,500 deductible)	1,000,000
Aggregate	1,000,000

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

B. Workers' Compensation

For fiscal year 2011, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Comp Management, Inc. provides the administrative, cost control and actuarial services to the GRP.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. RISK MANAGEMENT (Continued)

C. Health Care Benefits

The School District participates in the Mercer Auglaize Employee Trust (Trust), a public entity shared risk pool consisting of eleven local districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical, dental, and vision insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$103,217, \$154,487, and \$88,113, respectively; 43.41 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. DEFINED BENEFIT 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$507,669, \$503,580, and \$511,604, respectively; 83.24 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose social security or the School Employees Retirement System. As of June 30, 2011, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending upon their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$6,642, \$9,187, and \$7,270, respectively; 43.34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Health Care Plan – ORC 3309.375 and 2209.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge.

The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$27,788, \$20,363, and \$54,966, respectively; 43.34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at www.ohsers.org under employers/audit resources.

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$39,051, \$38,737, and \$39,354, respectively; 83.24 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits 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. Vacation leave may be carried over from one year to the next and can be accumulated up to a 3 year maximum. Unused vacation time is paid to classified employees and administrators upon retirement. 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 210 days for all personnel. Upon retirement, employees who meet the State requirement of 10 years of service will receive payment for twenty-five percent of accrued, but unused sick leave credit to a maximum of 150 days for all employees, plus an addition one and one-half days for each year over twenty years of service in the Fort Recovery School System (60 day maximum).

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. OTHER EMPLOYEE BENEFITS (Continued)

B. Insurance Benefits

The School District provides life insurance to most employees through AIG American General. Vision insurance is provided through the Vision Service Plan. Medical/surgical benefits and dental benefits are provided through CoreSource through the Mercer Auglaize Employee Benefit Trust (See Note 14).

11. DEBT

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	<u>Amount Outstanding 6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amount Due in One Year</u>
Governmental Activities					
1998 School Improvement Bonds					
Capital Appreciation Bonds 7.5%	\$ 465,938			\$ 465,938	\$163,143
2010 Classroom Facilities Refunding Bonds					
Serial Bonds 2% - 4%	1,665,000		(\$175,000)	1,490,000	10,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,130,938</u>	<u>\$0</u>	<u>(\$175,000)</u>	<u>\$1,955,938</u>	<u>\$173,143</u>

1998 School Improvement General Obligation Bonds – On August 1, 1998, the School District issued \$3,389,193 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,705,000, \$1,500,000, and \$265,339, respectively. During fiscal year 2010, the School District refunded the serial and term portion of these bonds. The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For fiscal year 2011, \$22,945 was accreted for a total bond value of \$490,691. The bonds are being retired from the Bond Retirement debt service fund.

2010 Classroom Facilities Refunding Bonds – On June 3, 2010, the School District issued \$1,665,000 in general obligation bonds with interest rates between 2% to 4% to advance refund \$1,670,000 of the 1998 School Improvement General Obligation Bonds. The bonds are being retired from the Bond Retirement debt service fund.

The School District's overall legal debt margin was \$6,058,973 the un-voted debt margin was \$86,829 at June 30, 2011. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2011 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 173,143	\$ 70,757	\$ 243,900
2013	165,283	78,417	243,700
2014	157,512	85,988	243,500
2015	200,000	54,400	254,400
2016	205,000	46,300	251,300
2017-2021	1,055,000	100,700	1,155,700
Total	<u>\$1,955,938</u>	<u>\$436,562</u>	<u>\$2,392,500</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. DEBT (Continued)

In fiscal year 1997, the School District was awarded \$16,145,140 for construction and improvements to its facilities under the State's "Classroom Facilities Program". Under this program, the School District entered into an agreement with the State of Ohio in which the State paid for a portion of the estimated project costs. Additionally, the School District was required to issue bonds, and levy a property tax for the payment of those bonds, for the School District's portion of construction and maintenance costs. Any funds remaining from the issuance of bonds, in excess of construction costs, must be used solely for maintaining the constructed facilities. The constructed facilities must be used for school purposes as long as the Commission retains any interest in the project, or for a period of twenty-three years, whichever is less.

12. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Non-spendable	\$ 2,074			\$ 2,074
Restricted:				
Classroom Maintenance			\$105,516	105,516
Athletics			55,124	55,124
Local Grants			22,004	22,004
Debt Service			200,293	200,293
State and Federal Grants			941	941
Total Restricted			383,878	383,878
Committed to:				
Termination Benefits	316,538			316,538
Assigned for:				
Unpaid Obligations	164,332			164,332
FY 12 Appropriations	375,900			375,900
Public School Support	49,273			49,273
Capital Improvements		\$411,056		411,056
Total Assigned	589,505	411,056		1,000,561
Unassigned	2,074,569			2,074,569
Total Fund Balance	<u>\$2,982,686</u>	<u>\$411,056</u>	<u>\$383,878</u>	<u>\$3,777,620</u>

13. SET-ASIDE REQUIREMENTS

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

13. SET-ASIDE REQUIREMENTS (Continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2011.

	Textbooks and Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2010	(\$195,600)	
Current Year Set-aside Requirement	150,848	\$150,848
Qualifying Disbursements	(135,373)	(150,848)
Total	(\$180,125)	\$ 0
Excess Available to Carry-Over to Subsequent Year	(\$180,125)	\$ 0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks and instructional material amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount for textbooks and instructional material to carry over into future years. However for capital acquisitions, the extra amount may not be used to reduce the set-aside requirement for future years.

14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND RELATED ORGANIZATION

A. Jointly Governed Organizations

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among school districts in Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Van Wert and Wood counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these school supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2011, the School District contributed \$29,781 to NOACSC. Financial information can be obtained by contacting Ray Burden, who serves as Director, at 645 South Main Street, Lima, OH 45804.

Mercer County Local Professional Development Committee - The School District is a participant in the Mercer County Local Professional Development Committee (Committee), which is a regional council of governments established to provide professional education license renewal standards and procedures. The Committee is governed by an eleven member board made up of six teachers, two principals, one superintendent, and two members employed by the Mercer County Educational Service Center. Board members serve terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not contribute to the Committee during the fiscal year. Financial information can be obtained from Mary Brandon, Treasurer of the Mercer County Educational Service Center at 441 East Market Street, Celina, Ohio 45822.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND RELATED ORGANIZATION (Continued)

West Central Ohio Special Education Regional Resource Center – The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not make any contributions to SERRC during the fiscal year. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Education Service Center, 1211 W. Lima Street, Suite A, Kenton, Ohio 43326-2385.

West Central Ohio Regional Professional Development Center (Center) – The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District contributed \$0 to the Center during the fiscal year. Financial information can be obtained by contacting Greg Spiess, Treasurer, at the Hancock County Education Service Center, 7746 County Road 140, Findlay, Ohio 45840.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2011, the School District paid \$674 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND RELATED ORGANIZATION (Continued)

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2011, the School District made \$1,781 in payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials (OASBO) as an insurance purchasing pool.

Mercer Auglaize Employee Benefit Trust – The Mercer Auglaize Employee Benefit Trust (Trust) is a insurance pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 50(C)(9) of the Internal Revenue Code and provides medical, dental and vision benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each participant decides which plan offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler, JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio 43614.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND RELATED ORGANIZATION (Continued)

Ohio School Insurance Plan (Plan) – The School District participates in the Ohio School Insurance 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 board composed of officials from various member entities. The Hylant Administrative Services, LLC is the Plan's administrator and is responsible for processing claims. Financial information can be obtained from Ohio School Plan, c/o Hyland Administrative Services, LLC 811 Madison Avenue, P.O. Box 2083, Toledo, Ohio 43606-2083.

C. Related Organization

Fort Recovery Public Library – The Fort Recovery Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees.

The School District did not make any financial contributions to the Fort Recovery Public Library during the fiscal year. Financial information can be obtained from the Fort Recovery Public Library, Marcia Staugler, Clerk/Treasurer, at 113 North Wayne Street, Fort Recovery, Ohio 45846.

15. INTERFUND BALANCES

At June 30, 2010, the General Fund had unpaid interfund cash advances in the amount of \$50,000, \$20,000, and \$7,000, respectively, to the IDEA Part VI B Stimulus, Title I and Improving Teacher Quality special revenue funds. These advances were due to the timing of the receipt of grants and were repaid in fiscal year 2011.

During fiscal year 2011, the School District advanced \$5,000, \$10,000, \$3,000, \$40,000, \$752, \$20,000 and \$7,000, respectively, to the SME Education Foundation Fund, Preschool Grant, Connectivity Grant, Title VI-B Fund, Limited English Proficiency, fsTitle I and Improving Teacher Quality special revenue funds from the General Fund. These advances were necessary due to the timing of the receipt of grants and were repaid during fiscal year 2011.

At June 30, 2011, the General Fund had unpaid an interfund cash advance in the amount of \$10,000, to the Employee Benefit Self-Insurance Agency Fund. This advance was due to the timing of the receipt of monies and will be repaid in fiscal year 2012.

During fiscal year 2011, the School District transferred \$170,000 from the General Fund to the Permanent Improvement capital projects fund. The transfer was to provide for capital acquisitions.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

16. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and/or unassigned. The restatement had the following effect on fund balance:

	General	Permanent Improvement	Termination Benefits	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2010	\$2,299,751		\$345,161	\$775,952	\$3,420,864
Change in Fund Structure	390,620	\$303,227	(345,161)	(348,686)	
Adjusted Fund Balance June 30, 2010	<u>\$2,690,371</u>	<u>\$303,227</u>	<u>\$ 0</u>	<u>\$427,266</u>	<u>\$3,420,864</u>

17. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

18. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

19. SUBSEQUENT EVENT

House Bill 30 eliminated the requirement to put money into the set-aside for textbooks and instructional materials. It was effective July 1, 2011.

On November 8, 2011, the voters of the School District approved a bond issue in the amount of \$3.4 million (2.7 mills) to pay for renovations to the high school and improvement costs in the School District.

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**FT. RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed through Ohio Department of Education)</i>						
Nutrition Cluster:						
Non-Cash Assistance (food distribution)						
National School Lunch Program		10.555		\$29,622		\$29,622
Cash Assistance:						
National School Lunch Program		10.555	\$71,950		\$71,950	
Cash Assistance Subtotal			71,950		71,950	
Total Nutrition Cluster			71,950	29,622	71,950	29,622
Total U.S. Department of Agriculture			71,950	29,622	71,950	29,622
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed through Ohio Department of Education)</i>						
Special Education Grants to States Recovery Act	2011 2010	84.391	119,283 16,680		119,283 16,669	
Total Special Education Grants to States Recovery Act			135,963		135,952	
Title I Cluster:						
Title I Grants to Local Educational Agencies Recovery Act	2011 2010	84.389	31,939		31,939 438	
Total Title I Grants to Local Educational Agencies Recovery Act			31,939		32,377	
Title I Grants to Local Educational Agencies	2011 2010	84.010	62,467 13,783		62,467 13,035	
Total Title I Grants to Local Educational Agencies			76,250		75,502	
Total Title I Cluster			108,189		107,879	
Race to the Top Incentive Grants - Recovery Act	2010	84.395	24,700		24,700	
Improving Teacher Quality State Grants	2011 2010	84.367	26,663 7,457		26,663 6,278	
Total Improving Teacher Quality State Grant			34,120		32,941	
State Fiscal Stabilization Fund - Education State Grants - Recovery Act	2010	84.394	368,152		368,152	
Educational Technology State Grant	2011	84.318	208		208	
Total U.S. Department of Education			671,332		669,832	
Total Federal Assistance			\$743,282	\$29,622	\$741,782	\$29,622

See Accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Fort Recovery Local School District's (the School District's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.

NOTE C - CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Fort Recovery Local School District
Mercer County
400 E. Butler Street
PO Box 604
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 27, 2012, wherein we noted the School District uses a comprehensive accounting basis other than generally accepted accounting principles and adopted the provisions of Government Accounting Standards Board Statement No 54, *Fund Balance and Governmental Fund Type Definitions*. 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 School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the School 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 or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 27, 2011.

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

February 27, 2012



Dave Yost • Auditor of State

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

Fort Recovery Local School District
Mercer County
400 E. Butler Street
PO Box 604
Fort Recovery, Ohio 45846

To the Board of Education:

Compliance

We have audited the compliance of Fort Recovery Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the School District's major federal programs. The School 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 opine on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 School District's compliance with these 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 School District's compliance with these requirements.

In our opinion, the Fort Recovery Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The School 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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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.

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



Dave Yost
Auditor of State

February 27, 2012

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(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 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(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.394 – State Fiscal Stabilization Fund – Education State Grants – Recovery Act TITLE I CLUSTER: CFDA #84.010 – Title I Grants to Local Educational Agencies and CFDA #84.389 – Title Grants to Local Education Agencies – Recovery Act
(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 2011-01

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such report. If the Auditor of State has not prescribed a rule regarding the form for the report, the public official shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.83.

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

The School District should prepare its annual financial statements in accordance with generally accepted accounting principles to include all assets, liabilities and disclosures to provide a complete presentation of its financial status.

Official's Response:

These citations were a result of the School District not preparing its financial statements in accordance with generally accepted accounting principles (GAAP). The School District has prepared its financial statements using an alternative cash basis of financial reporting by compiling and completing OCBOA (other comprehensive basis of accounting) financial reports for the fiscal year ended June 30, 2011. While we admit that the Ohio Administrative Code requires the School District to file our financial reports on a GAAP basis, the School District believes that the financial costs associated with generating and auditing the reports on the GAAP basis, outweigh any benefits that the School District may obtain from preparing and filing GAAP reports.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – failed to prepare financial statements in accordance with GAAP	No	Repeated as finding Number 2011-01
2010-02	American Recovery and Reinvestment Act of 2009 Public Law 111-8 Divison A, Title XIV State Fiscal Stabilization Fund SEC. 14003 part b (1) – question costs for payment of maintenance costs and Ohio Revised Code Section 3313.24 – question costs for payment of Treasurer’s health insurance premium	Yes	

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Fort Recovery Local School District
Mercer County
400 E. Butler Street
PO Box 604
Fort Recovery, Ohio 45846

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Fort Recovery Local School District (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on October 12, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 27, 2012

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Dave Yost • Auditor of State

FORT RECOVERY LOCAL SCHOOL DISTRICT

MERCER 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, 2012**