



**Auditor of State
Betty Montgomery**

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards

Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

As discussed in Note 2, the District changed its capital assets threshold policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

August 25, 2004

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of the Fostoria City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the 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 District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$217,560 which represents a 7.52 percent increase from 2002.
- General revenues accounted for \$17,421,295 in revenue or 82.70 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,645,340 or 17.30 percent of total revenues of \$21,066,635.
- The District had \$20,849,075 in expenses related to governmental activities; \$3,645,340 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The District has two major funds. They are the general fund and the bond retirement fund. The District's major governmental funds had \$17,211,027 in revenues and other financing sources and \$16,871,798 in expenditures and other financing uses. The fund balances of the major governmental funds increased from \$1,087,913 to \$1,427,142.
- The District has \$10,498,886 in capital assets at June 30, 2003. This amount is net of accumulated depreciation in the amount of \$12,646,940. Fiscal year 2003 depreciation expense was \$666,177. Total capital assets, net of related debt to acquire or construct the assets, were \$2,561,710 at June 30, 2003.
- The District has \$9,554,675 in long-term liabilities outstanding at June 30, 2003. Of this total, \$1,079,152 is due within one year and \$8,475,523 is due in more than one year.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Using this Financial Report

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 27 and 28. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

The table below provides a summary of the District's net assets for 2003.

| Net Assets | Governmental Activities 2003 |
|--|------------------------------------|
| Assets | |
| Current and other assets | \$ 12,487,713 |
| Capital assets | <u>10,498,886</u> |
| <i>Total assets</i> | <u>22,986,599</u> |
| Liabilities | |
| Current liabilities | 10,321,648 |
| Long-term liabilities | <u>9,554,675</u> |
| <i>Total liabilities</i> | <u>19,876,323</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 2,561,710 |
| Restricted | 1,520,504 |
| Unrestricted | <u>(971,938)</u> |
| <i>Total net assets</i> | <u>\$ 3,110,276</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$3,110,276.

At year-end, capital assets represented 45.67 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$2,561,710. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be

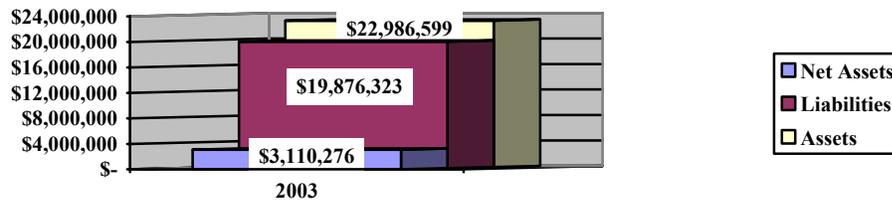
**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,520,504, represents resources that are subject to external restriction on how they may be used. Of the restricted net assets, \$327,226 is restricted for capital projects.

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

| | Governmental Activities 2003 |
|------------------------------------|------------------------------------|
| Revenues | |
| Program revenues: | |
| Charges for services and sales | \$ 656,730 |
| Operating grants and contributions | 2,988,610 |
| General revenues: | |
| Property taxes | 8,068,663 |
| Grants and entitlements | 9,173,848 |
| Investment earnings | 79,648 |
| Miscellaneous | 99,136 |
| <i>Total revenues</i> | <u><u>\$ 21,066,635</u></u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| Change in Net Assets | |
|--|------------------------------------|
| | Governmental Activities 2003 |
| Expenses | |
| Program expenses: | |
| Instruction: | |
| Regular | \$ 7,374,951 |
| Special | 2,668,260 |
| Vocational | 109,922 |
| Other | 873,141 |
| Support services: | |
| Pupil | 1,170,064 |
| Instructional staff | 1,362,499 |
| Board of education | 21,456 |
| Administration | 1,681,676 |
| Fiscal | 427,693 |
| Business | 201,739 |
| Operations and maintenance | 1,910,063 |
| Pupil transportation | 655,744 |
| Central | 141,399 |
| Operations of non-instructional services | 100,302 |
| Food service operations | 885,274 |
| Extracurricular activities | 498,156 |
| Intergovernmental-pass through | 298,512 |
| Interest and fiscal charges | 468,224 |
| <i>Total expenses</i> | <i>20,849,075</i> |
| <i>Increase in net assets</i> | <i>\$ 217,560</i> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Governmental Activities

Net assets of the District's governmental activities increased by \$217,560. Total governmental expenses of \$20,849,075 were offset by program revenues of \$3,645,340, and general revenues of \$17,421,295. Program revenues supported 17.48 percent of the total governmental expenses.

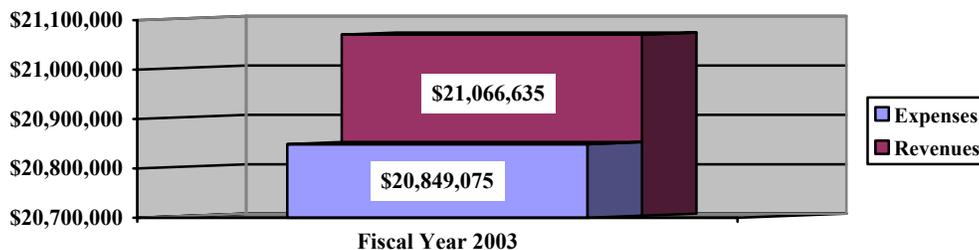
The primary sources of revenue for governmental activities are derived from property taxes. This revenue source accounts for 38.30 percent of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Seneca County in 2000, the District's tax valuation increased by 29.73 percent that year.

Voters approved a 7.9 Mill emergency operating levy in February 2002. The District began collection on the first ½ of this levy which will generate approximately \$1,687,327 per year for 5 years.

The District's financial condition has been declining in recent years, primarily due to dropping enrollment. During the period under audit the District closed Lowell Elementary School and restructured the remaining three elementary buildings from K-5 buildings to K-1, 2-3 and 4-5 buildings. This change has allowed for a reduction in teaching staff and also a more efficient use of resources. The District is funded on the State formula, but with dropping enrollment, State Funding increases are modest. The only increase in State Funding was through the Parity Aide monies. The District has a significant number of students leaving to go to neighboring districts through open-enrollment; this creates a net loss in state revenue of \$563,000. The District is working on various marketing techniques to advertise the great things happening in Fostoria City Schools to reverse this trend.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

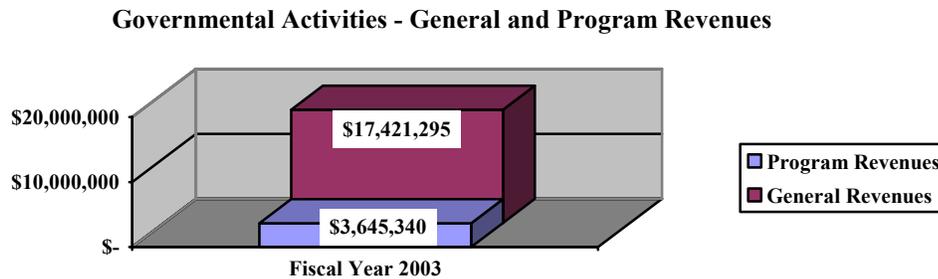
| Governmental Activities | | |
|--|-----------------------------------|---------------------------------|
| | Total Cost of Services 2003 | Net Cost of Services 2003 |
| Program expenses | | |
| Instruction: | | |
| Regular | \$ 7,374,951 | \$ 6,688,896 |
| Special | 2,668,260 | 1,984,797 |
| Vocational | 109,922 | 109,922 |
| Other | 873,141 | 803,926 |
| Support services: | | |
| Pupil | 1,170,064 | 1,024,818 |
| Instructional staff | 1,362,499 | 860,097 |
| Board of education | 21,456 | 21,456 |
| Administration | 1,681,676 | 1,580,525 |
| Fiscal | 427,693 | 416,806 |
| Business | 201,739 | 201,739 |
| Operations and maintenance | 1,910,063 | 1,880,850 |
| Pupil transportation | 655,744 | 630,156 |
| Central | 141,399 | 122,082 |
| Food service operations | 885,274 | 47,748 |
| Operations of non-instructional services | 100,302 | (2,002) |
| Extracurricular activities | 498,156 | 366,399 |
| Intergovernmental pass-through | 298,512 | (2,704) |
| Interest and fiscal charges | 468,224 | 468,224 |
| Total | \$ 20,849,075 | \$ 17,203,735 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 86.95 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.52 percent. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$2,034,359, which is higher than last year's total of \$1,455,375. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

| | Fund Balance June 30, 2003 | Restated Fund Balance June 30, 2002 | Increase (Decrease) | Percentage Change |
|--------------------|-------------------------------|---|------------------------|----------------------|
| General | \$ 508,518 | \$ 99,547 | \$ 408,971 | 410.83% |
| Bond Retirement | 918,624 | 988,366 | (69,742) | (7.06)% |
| Other Governmental | 607,217 | 367,462 | 239,755 | 65.25% |
| Total | \$ 2,034,359 | \$ 1,455,375 | \$ 578,984 | 39.78% |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

General Fund

During fiscal year 2003, the District's general fund balance increased by \$408,971, which can be attributed to increased local tax revenue during fiscal year 2003. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | 2003 Amount | 2002 Amount | Increase (Decrease) | Percentage Change |
|--|----------------------|----------------------|------------------------|----------------------|
| Revenues | | | | |
| Taxes | \$ 7,069,328 | \$ 6,459,882 | \$ 609,446 | 9.43% |
| Tuition | 8,245 | 10,768 | (2,523) | (23.43)% |
| Earnings on investments | 77,760 | 130,359 | (52,599) | (40.35)% |
| Intergovernmental | 9,076,106 | 9,200,141 | (124,035) | (1.35)% |
| Gifts and donations | 4,450 | 24,567 | (20,117) | (81.89)% |
| Other revenues | 179,265 | 161,155 | 18,110 | 11.24% |
| <i>Total</i> | <u>\$ 16,415,154</u> | <u>\$ 15,986,872</u> | <u>\$ 428,282</u> | 2.68% |
| Expenditures | | | | |
| Instruction | \$ 9,188,470 | \$ 9,119,024 | \$ 69,446 | 0.76% |
| Support services | 6,235,154 | 6,093,276 | 141,878 | 2.33% |
| Extracurricular activities | 338,861 | 345,270 | (6,409) | (1.86)% |
| Operation of non-instructional services | - | 15,053 | (15,053) | (100.00)% |
| Facilities acquisition and construction | 5,218 | 31,620 | (26,402) | (83.50)% |
| Debt service | 178,932 | 196,387 | (17,455) | (8.89)% |
| <i>Total</i> | <u>\$ 15,946,635</u> | <u>\$ 15,800,630</u> | <u>\$ 146,005</u> | 0.92% |

Debt Service

During fiscal year 2003, the District's bond retirement fund balance decreased by \$69,742. The table that follows assists in illustrating the financial activities of the bond retirement fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | 2003 Amount | 2002 Amount | Increase (Decrease) | Percentage Change |
|---------------------|-------------------|-------------------|------------------------|----------------------|
| Revenues | | | | |
| Taxes | \$ 666,569 | \$ 771,128 | \$ (104,559) | (13.56)% |
| Intergovernmental | 69,939 | 93,346 | (23,407) | (25.08)% |
| <i>Total</i> | <u>\$ 736,508</u> | <u>\$ 864,474</u> | <u>\$ (127,966)</u> | (14.80)% |
| Expenditures | | | | |
| Fiscal | \$ 14,040 | \$ 18,209 | \$ (4,169) | (22.90)% |
| Debt Service: | | | | |
| Principal | 553,000 | 542,000 | 11,000 | 2.03% |
| Interest | 298,575 | 319,408 | (20,833) | (6.52)% |
| <i>Total</i> | <u>\$ 865,615</u> | <u>\$ 879,617</u> | <u>\$ (14,002)</u> | (1.59)% |

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$17,733,280 were \$117,616 lower than the original budgeted revenues estimate of \$17,850,896. Actual revenues and other financing sources of \$17,449,464 were \$283,816 lower than the final budgeted amounts.

General fund actual expenditures plus other financing sources of \$17,941,663 were \$521,627 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$18,463,290 due to good planning and a tight control of overall expenditures. The original appropriations were \$18,487,191 which was \$23,901 higher than the final appropriations.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the District had \$10,498,886 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. See Note 8 to the basic financial statements for detail. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

| Capital Assets at June 30 | | |
|----------------------------------|-------------------------|---------------|
| (Net of Depreciation) | | |
| | Governmental Activities | |
| | 2003 | 2002 |
| Land | \$ 313,062 | \$ 313,062 |
| Land improvements | 304,782 | 317,537 |
| Buildings and improvements | 9,181,353 | 9,608,884 |
| Furniture and equipment | 480,065 | 539,408 |
| Vehicles | 219,624 | 274,945 |
| <i>Total</i> | \$ 10,498,886 | \$ 11,053,836 |

The primary increase occurred in buildings and improvements related to various District building projects. Total additions to capital assets for 2003 were \$111,227, disposals totaled \$109,804 and depreciation expense was \$666,177.

Debt Administration

At June 30, 2003 the District had \$7,452,726 in general obligation bonds outstanding and \$380,671 in loans outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. See Note 11 to the basic financial statements for detail. Of this total, \$710,138 is due within one year and \$7,123,289 is due within greater than one year. The following table summarizes the bonds outstanding.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Outstanding Debt, at Year End

| | Governmental Activities 2003 | Governmental Activities 2002 |
|---------------------------------|------------------------------------|------------------------------------|
| General obligation bonds: | | |
| Middle school refinancing bonds | \$ 7,392,726 | \$ 7,784,481 |
| School bus bonds | 60,000 | 113,000 |
| Loans: | | |
| H.B. 264 loan | 142,697 | 171,236 |
| Energy conservation loan | 237,974 | 324,735 |
| <i>Total</i> | <u>\$ 7,833,397</u> | <u>\$ 8,393,452</u> |

The District issued \$9,023,505 in refunding general obligation bonds on January 1, 1999, to refund the general obligation bonds issued in 1992 to finance middle school improvements. The annual interest rate ranges from 3.20 percent to 4.70 percent. This issue is comprised of current interest and capital appreciation bonds. The bonds are scheduled to mature on December 1, 2016.

The District issued bonds on June 30, 1998 for \$129,000 and on June 1, 2000 for \$134,000 to finance the purchase of school buses. The 1998 issue matured in fiscal year 2003 and bore an annual interest rate of 5.50 percent. The 2000 issue is scheduled to mature on April 15, 2005, and bears an annual interest rate of 5.00 percent.

The District obtained a loan for the purpose of providing lighting for the District on August 21, 1998. The loan bears an annual interest rate of 4.80 percent and is scheduled to mature during fiscal year 2008.

The District issued general obligation notes for the purpose of providing energy conservation to the District on May 15, 1997. The energy conservation loan bears an annual interest rate of 5.50 percent and is scheduled to mature during fiscal year 2006.

At June 30, 2003, the District's overall legal debt margin was \$13,448,307 with an unvoted debt margin of \$218,069.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Current Financial Related Activities

Overall, the District remains financially viable. As the preceding information shows, the District depends upon local property taxes, primarily residential/agricultural class property. An increase in property tax revenue is expected in fiscal year 2004 due to the emergency tax levy passed in 2002. This additional tax revenue, along with the District's cash balance and staffing reductions, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2004. However, the future financial stability of the District is not without challenges.

The first challenge is the loss of state foundation revenues due to charge-offs for post secondary option and children attending neighboring schools through open enrollment. The District currently has a sufficient cash balance to meet operating expenses through fiscal year 2004. The District is currently developing a plan to control spending for years beyond fiscal year 2004.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The Ohio Coalition for Equity and Adequacy of School Funding filed a petition with the U.S. Supreme Court for permission to file an appeal. The District does not anticipate growth in state revenue, as in the ten years prior to the DeRolph decision, no state revenue growth was realized. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback, homestead and personal property tax.

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

Contacting the District's Financial Management

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2003

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 3,306,761 |
| Receivables: | |
| Taxes | 8,897,976 |
| Accounts | 15,247 |
| Intergovernmental | 216,032 |
| Prepayments | 25,993 |
| Materials and supplies inventory | 25,704 |
| Capital assets: | |
| Land | 313,062 |
| Depreciable capital assets, net | 10,185,824 |
| Capital assets, net | <u>10,498,886</u> |
| <i>Total assets</i> | <u>22,986,599</u> |
| Liabilities: | |
| Accounts payable | 106,748 |
| Accrued wages and benefits | 1,598,466 |
| Pension obligation payable | 434,428 |
| Intergovernmental payable | 126,838 |
| Deferred revenue | 8,029,040 |
| Accrued interest payable | 26,128 |
| Long-term liabilities: | |
| Due within one year | 1,079,152 |
| Due within more than one year | 8,475,523 |
| <i>Total liabilities</i> | <u>19,876,323</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 2,561,710 |
| Restricted for: | |
| Capital projects | 327,226 |
| Debt service | 914,975 |
| Set Asides | 174,183 |
| Other purposes | 104,120 |
| Unrestricted | <u>(971,938)</u> |
| <i>Total net assets</i> | <u><u>\$ 3,110,276</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| | Expenses |
|--|----------------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 7,374,951 |
| Special | 2,668,260 |
| Vocational | 109,922 |
| Other | 873,141 |
| Support services: | |
| Pupil | 1,170,064 |
| Instructional staff | 1,362,499 |
| Board of education | 21,456 |
| Administration | 1,681,676 |
| Fiscal | 427,693 |
| Business | 201,739 |
| Operations and maintenance | 1,910,063 |
| Pupil transportation | 655,744 |
| Central | 141,399 |
| Operation of non-instructional services: | |
| Food service operations | 885,274 |
| Other non-instructional services | 100,302 |
| Extracurricular activities | 498,156 |
| Intergovernmental pass-through | 298,512 |
| Interest and fiscal charges | 468,224 |
| | \$ 20,849,075 |
| <i>Total governmental activities</i> | <i>\$ 20,849,075</i> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|--|--|
| Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| \$ 71,920 | \$ 614,135 | \$ (6,688,896) |
| - | 683,463 | (1,984,797) |
| - | - | (109,922) |
| 2,288 | 66,927 | (803,926) |
| 1,257 | 143,989 | (1,024,818) |
| - | 502,402 | (860,097) |
| - | - | (21,456) |
| 79,658 | 21,493 | (1,580,525) |
| - | 10,887 | (416,806) |
| - | - | (201,739) |
| 29,213 | - | (1,880,850) |
| - | 25,588 | (630,156) |
| - | 19,317 | (122,082) |
| 340,613 | 496,913 | (47,748) |
| 24 | 102,280 | 2,002 |
| 131,757 | - | (366,399) |
| - | 301,216 | 2,704 |
| - | - | (468,224) |
| <u>\$ 656,730</u> | <u>\$ 2,988,610</u> | <u>(17,203,735)</u> |

General Revenues:

Property taxes levied for:

| | |
|------------------|-----------|
| General purposes | 7,117,709 |
| Debt service | 672,132 |
| Capital projects | 278,822 |

| | |
|--|-----------|
| Grants and entitlements not restricted to specific programs | 9,173,848 |
| Investment earnings | 79,648 |
| Miscellaneous | 99,136 |

Total general revenues 17,421,295

Change in net assets 217,560

Net assets at beginning of year (restated) 2,892,716

Net assets at end of year \$ 3,110,276

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,420,212 | \$ 864,226 | \$ 848,140 | \$ 3,132,578 |
| Receivables: | | | | |
| Taxes | 7,781,093 | 789,476 | 327,407 | 8,897,976 |
| Accounts | 13,213 | - | 2,034 | 15,247 |
| Intergovernmental | - | - | 216,032 | 216,032 |
| Interfund loans | 162,874 | - | - | 162,874 |
| Prepayments | 25,993 | - | - | 25,993 |
| Materials and supplies inventory | 14,632 | - | 11,072 | 25,704 |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 174,183 | - | - | 174,183 |
| <i>Total assets</i> | <u>\$ 9,592,200</u> | <u>\$ 1,653,702</u> | <u>\$ 1,404,685</u> | <u>\$ 12,650,587</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 71,781 | \$ - | \$ 34,967 | \$ 106,748 |
| Accrued wages and benefits | 1,370,449 | - | 228,017 | 1,598,466 |
| Compensated absences payable | 29,303 | - | - | 29,303 |
| Pension obligation payable | 242,956 | - | 24,322 | 267,278 |
| Intergovernmental payable | 114,059 | - | 12,779 | 126,838 |
| Interfund loan payable | - | - | 162,874 | 162,874 |
| Deferred revenue | 7,255,134 | 735,078 | 334,509 | 8,324,721 |
| <i>Total liabilities</i> | <u>9,083,682</u> | <u>735,078</u> | <u>797,468</u> | <u>10,616,228</u> |
| Fund Balances: | | | | |
| Reserved for encumbrances | 835,517 | - | 149,874 | 985,391 |
| Reserved for materials and supplies inventory | 14,632 | - | 11,072 | 25,704 |
| Reserved for prepayments | 25,993 | - | - | 25,993 |
| Reserved for property tax unavailable for appropriation | 525,959 | 54,398 | 21,567 | 601,924 |
| Reserved for budget stabilization | 89,109 | - | - | 89,109 |
| Reserved for textbooks | 85,074 | - | - | 85,074 |
| Undesignated, reported in: | | | | |
| General fund | (1,067,766) | - | - | (1,067,766) |
| Special revenue funds | - | - | 163,712 | 163,712 |
| Debt service fund | - | 864,226 | - | 864,226 |
| Capital projects funds | - | - | 260,992 | 260,992 |
| <i>Total fund balances</i> | <u>508,518</u> | <u>918,624</u> | <u>607,217</u> | <u>2,034,359</u> |
| <i>Total liabilities and fund balances</i> | <u>\$ 9,592,200</u> | <u>\$ 1,653,702</u> | <u>\$ 1,404,685</u> | <u>\$ 12,650,587</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

| | | |
|--|---------------|----------------------------|
| Total governmental fund balances | | \$ 2,034,359 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 10,498,886 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 267,012 | |
| Intergovernmental revenue | <u>28,669</u> | |
| Total | | 295,681 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | 1,238,975 | |
| Pension obligation payable | 167,150 | |
| General obligation bonds payable | 7,452,726 | |
| Energy conservation loans payable | 380,671 | |
| Capital lease obligation payable | 453,000 | |
| Accrued interest payable | <u>26,128</u> | |
| Total | | <u>(9,718,650)</u> |
| <i>Net assets of governmental activities</i> | | <u><u>\$ 3,110,276</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 7,069,328 | \$ 666,569 | \$ 275,682 | \$ 8,011,579 |
| Tuition | 8,245 | - | 45,235 | 53,480 |
| Charges for services | - | - | 340,613 | 340,613 |
| Earnings on investments | 77,760 | - | 1,888 | 79,648 |
| Extracurricular | - | - | 153,763 | 153,763 |
| Gifts and donations | 4,450 | - | 24,673 | 29,123 |
| Other local revenues | 162,511 | - | 38,395 | 200,906 |
| Other revenue | 16,754 | - | - | 16,754 |
| Intergovernmental - State | 8,993,958 | 69,939 | 1,148,067 | 10,211,964 |
| Intergovernmental - Federal | 82,148 | - | 2,080,025 | 2,162,173 |
| <i>Total revenue</i> | <u>16,415,154</u> | <u>736,508</u> | <u>4,108,341</u> | <u>21,260,003</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,359,389 | - | 569,800 | 6,929,189 |
| Special | 1,926,131 | - | 669,571 | 2,595,702 |
| Vocational | 106,836 | - | - | 106,836 |
| Other | 796,114 | - | 77,115 | 873,229 |
| Support services: | | | | |
| Pupil | 987,552 | - | 154,291 | 1,141,843 |
| Instructional staff | 656,080 | - | 649,721 | 1,305,801 |
| Board of education | 21,778 | - | - | 21,778 |
| Administration | 1,549,959 | - | 106,086 | 1,656,045 |
| Fiscal | 392,630 | 14,040 | 17,506 | 424,176 |
| Business | 201,739 | - | - | 201,739 |
| Operations and maintenance | 1,749,275 | - | 552 | 1,749,827 |
| Pupil transportation | 564,306 | - | 26,701 | 591,007 |
| Central | 111,835 | - | 21,573 | 133,408 |
| Operation of non-instructional services: | | | | |
| Food service operations | - | - | 828,293 | 828,293 |
| Other non-instructional services | - | - | 97,253 | 97,253 |
| Extracurricular activities | 338,861 | - | 140,739 | 479,600 |
| Intergovernmental pass-through | - | - | 298,772 | 298,772 |
| Facilities acquisition and construction | 5,218 | - | 216,109 | 221,327 |

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------|--------------------------------|--------------------------------|
| Debt service: | | | | |
| Principal retirement | 115,300 | 553,000 | - | 668,300 |
| Interest and fiscal charges | 63,632 | 298,575 | - | 362,207 |
| <i>Total expenditures</i> | <u>15,946,635</u> | <u>865,615</u> | <u>3,874,082</u> | <u>20,686,332</u> |
| <i>Excess of revenues under expenditures</i> | <u>468,519</u> | <u>(129,107)</u> | <u>234,259</u> | <u>573,671</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | 59,365 | 9,183 | 68,548 |
| Transfers (out) | (59,548) | - | (9,000) | (68,548) |
| Proceeds from sale of capital assets | - | - | 5,313 | 5,313 |
| <i>Total other financing sources (uses)</i> | <u>(59,548)</u> | <u>59,365</u> | <u>5,496</u> | <u>5,313</u> |
| Net change in fund balances | 408,971 | (69,742) | 239,755 | 578,984 |
| Fund balances at beginning of year (restated) | <u>99,547</u> | <u>988,366</u> | <u>367,462</u> | <u>1,455,375</u> |
| Fund balances at end of year | <u>\$ 508,518</u> | <u>\$ 918,624</u> | <u>\$ 607,217</u> | <u>\$ 2,034,359</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | |
|---|--------------------------|
| Net change in fund balances - total governmental funds | \$ 578,984 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period. | (554,950) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (198,681) |
| Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 668,300 |
| Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. | (106,017) |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | <u>(170,076)</u> |
| <i>Change in net assets of governmental activities</i> | <u><u>\$ 217,560</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|---|-------------------------|-------------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 7,237,040 | \$ 7,242,149 | \$ 7,074,375 | \$ (167,774) |
| Tuition | 8,435 | 11,140 | 8,245 | (2,895) |
| Earnings on investments | 300 | 1,600 | 91 | (1,509) |
| Extracurricular | 79,454 | 121,500 | 77,668 | (43,832) |
| Gifts and donations | 36,660 | 36,660 | 4,450 | (32,210) |
| Other local revenues | 134,981 | 132,900 | 163,333 | 30,433 |
| Other revenues | 17,139 | 18,000 | 16,754 | (1,246) |
| Intergovernmental - State | 9,200,761 | 9,068,587 | 8,993,958 | (74,629) |
| Intergovernmental - Federal | 84,037 | 85,000 | 82,148 | (2,852) |
| | <u>16,798,807</u> | <u>16,717,536</u> | <u>16,421,022</u> | <u>(296,514)</u> |
| <i>Total revenue</i> | | | | |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,044,540 | 6,873,952 | 6,846,527 | 27,425 |
| Special | 1,955,752 | 2,003,091 | 1,900,778 | 102,313 |
| Vocational | 118,400 | 120,660 | 115,072 | 5,588 |
| Other | 897,749 | 744,752 | 846,639 | (101,887) |
| Support services: | | | | |
| Pupil | 1,014,706 | 1,003,701 | 986,184 | 17,517 |
| Instructional staff | 686,616 | 815,097 | 667,316 | 147,781 |
| Board of education | 21,144 | 28,470 | 20,550 | 7,920 |
| Administration | 1,657,211 | 1,658,441 | 1,610,629 | 47,812 |
| Fiscal | 407,064 | 480,304 | 395,622 | 84,682 |
| Business | 230,482 | 214,748 | 224,003 | (9,255) |
| Operations and maintenance | 1,812,834 | 1,809,840 | 1,761,877 | 47,963 |
| Pupil transportation | 699,595 | 783,299 | 679,930 | 103,369 |
| Central | 119,878 | 149,961 | 116,508 | 33,453 |
| Operation of non-instructional services | - | 3,628 | - | 3,628 |
| Extracurricular activities | 344,889 | 377,659 | 335,195 | 42,464 |
| Facilities acquisition and construction | 5,425 | 5,521 | 5,273 | 248 |

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|---|-------------------------|--------------------|--------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Debt service: | | | | |
| Principal retirement | 1,022,922 | 861,854 | 986,300 | (124,446) |
| Interest and fiscal charges | 218,917 | 184,447 | 220,632 | (36,185) |
| <i>Total expenditures</i> | <u>18,258,124</u> | <u>18,119,425</u> | <u>17,719,035</u> | <u>400,390</u> |
| <i>Excess of revenues over (under) expenditures</i> | <u>(1,459,317)</u> | <u>(1,401,889)</u> | <u>(1,298,013)</u> | <u>103,876</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 94,255 | 25,000 | 92,136 | 67,136 |
| Proceeds from sale of notes | 891,027 | 871,000 | 871,000 | - |
| Transfers in | 6,962 | - | 6,806 | 6,806 |
| Transfers (out) | (68,273) | (293,865) | (66,354) | 227,511 |
| Advances in | 59,845 | 119,744 | 58,500 | (61,244) |
| Advances (out) | (160,794) | (50,000) | (156,274) | (106,274) |
| <i>Total other financing sources (uses)</i> | <u>823,022</u> | <u>671,879</u> | <u>805,814</u> | <u>133,935</u> |
| <i>Net change in fund balance</i> | (636,295) | (730,010) | (492,199) | 237,811 |
| <i>Fund balance at beginning of year (restated).</i> | 533,542 | 533,542 | 533,542 | - |
| Prior year encumbrances appropriated | 687,731 | 687,731 | 687,731 | - |
| <i>Fund balance at end of year</i> | <u>\$ 584,978</u> | <u>\$ 491,263</u> | <u>\$ 729,074</u> | <u>\$ 237,811</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

| | Private Purpose Trust | |
|--|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 103,768 | \$ 43,579 |
| Receivables: | | |
| Accounts | - | 615 |
| <i>Total assets</i> | 103,768 | 44,194 |
| Liabilities: | | |
| Intergovernmental payable | - | 44,194 |
| <i>Total liabilities</i> | - | \$ 44,194 |
| Net Assets: | | |
| Held in trust for scholarships | 103,768 | |
| <i>Total net assets</i> | \$ 103,768 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | Private Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 1,982 |
| <i>Total additions</i> | 1,982 |
| Deductions: | |
| Scholarships awarded | 3,400 |
| <i>Change in net assets</i> | (1,418) |
| <i>Net assets at beginning of year</i> | 105,186 |
| <i>Net assets at end of year</i> | \$ 103,768 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 227th largest in the State of Ohio (among 740 public and community school districts) in terms of enrollment. It is staffed by 145 non-certificated employees and 184 certificated full-time teaching personnel who provide services to 2,351 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of; (3) or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 13.C for further information on this group rating plan.

Ohio School Plan

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

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members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Center

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

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school

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districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - A fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation which is levied for debt charges on bonds or loans, shall be paid into this fund.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

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FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed

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to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the

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accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

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

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

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003. Prior to year-end, the District requested and received an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

4. Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. The appropriation resolution by fund must be within the estimated resources as certified by the County Budget Commission, and the total of

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expenditures and encumbrances may not exceed the appropriation totals at any level of control.

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to investments in repurchase agreements and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

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Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$77,760, which includes \$42,464 assigned from other funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$5,000 for its general capital assets during fiscal 2003. Improvements are

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capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | Governmental Activities <u>Estimated</u> <u>Lives</u> |
|----------------------------|--|
| Land improvements | 5 - 25 years |
| Buildings and improvements | 30 - 40 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 8 years |

I. Interfund Balances

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

J. Compensated Absences

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

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

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with ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, materials and supplies, prepayments, property taxes, budget stabilization and textbooks. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

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M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks and budget stabilization. See Note 18 for details.

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Q. Interfund Activity

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38, and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

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

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change

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in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the District switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principal had no material effect on fund balance at June 30, 2002.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds have been reclassified and are now part of the other nonmajor governmental funds. Also, a fund previously reported as an internal service fund has been reclassified and is included in the general fund. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

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

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|------------------|----------------------------|---|---------------------|
| Fund balance June 30, 2002 | \$ 28,922 | \$ 988,366 | \$ 366,882 | \$ 1,384,170 |
| Fund reclassifications | 26,904 | - | 580 | 27,484 |
| Implementation of GASB Interpretation No. 6 | <u>43,721</u> | <u>-</u> | <u>-</u> | <u>43,721</u> |
| Restated fund balance, June 30, 2002 | <u>\$ 99,547</u> | <u>\$ 988,366</u> | <u>\$ 367,462</u> | <u>\$ 1,455,375</u> |

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

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| | Total |
|--|--------------|
| Restated fund balance, June 30, 2002 | \$ 1,455,375 |
| GASB 34 adjustments: | |
| Long-term (deferred) assets | 494,362 |
| Capital assets | 11,053,836 |
| Long-term liabilities | (10,082,501) |
| Accrued interest payable | (28,356) |
| Governmental activities net assets, June 30, 2002 | \$ 2,892,716 |

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$506,638 to \$533,542 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34.

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

| | Deficit |
|--------------------------------|---------|
| Nonmajor Funds | |
| Adult Education | \$ 303 |
| Management Information Systems | 93 |
| Disadvantaged Pupil Impact Aid | 54,907 |
| Public School Preschool | 76 |
| Summer Intervention | 179 |
| Title VI-B | 3,064 |
| Preschool | 54 |
| Disability Access Grant | 5,600 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

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C. Compliance

The District did not certify funds as required by Ohio Revised Code § 5705.41(D).

Several funds had negative cash balances at various times during the fiscal year contrary to Ohio Revised Code § 5705.10.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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(Continued)**

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

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

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

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delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year-end, the District had \$50 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end, the carrying amount of the District's deposits was \$(280,795) and the bank balance was \$136,606. Of the bank balance:

1. \$106,000 was covered by federal depository insurance; and
2. \$30,606 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year-end. Category 1 includes investments that are insured or registered for securities held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

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| | Category 3 | Reported Amount | Fair Value |
|-------------------------|------------------|--------------------|---------------|
| Repurchase Agreements | \$ <u>65,853</u> | \$ 65,853 | \$ 65,853 |
| Investment in Star Ohio | | 3,669,000 | 3,669,000 |
| Total Investments | | \$ 3,734,853 | \$ 3,734,853 |

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

| | Cash and Cash Equivalents/ Deposits | Investments |
|--|---|--------------|
| GASB Statement No. 9 | \$ 3,454,108 | \$ - |
| Investments of the cash management pool: | | |
| Repurchased Agreements | (65,853) | 65,853 |
| Investment in STAR Ohio | (3,669,000) | 3,669,000 |
| Cash on hand | (50) | - |
| GASB Statement No. 3 | \$ (280,795) | \$ 3,734,853 |

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

| | | |
|--|----|--------|
| Transfers to Bond Retirement Major Fund from: | | |
| General Fund | \$ | 59,365 |
| Transfers to Nonmajor Governmental funds from: | | |
| General Fund | | 183 |
| Transfer to Nonmajor Governmental fund from: | | |
| Nonmajor Governmental funds | | 9,000 |

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

- B.** Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund financial statements:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-----------------------------|------------|
| General | Nonmajor Governmental Funds | \$ 162,874 |

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. These interfund loans between governmental funds will be eliminated on the government-wide statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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Tangible personal property tax revenue received during calendar year 2003 (other than public utility property) represents the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The Seneca, Hancock and Wood County Treasurers collect property tax on behalf of the District and periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$525,959 in the general fund, \$54,398 in the bond retirement fund, and \$21,567 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$531,006 in the general fund, \$50,344 in the bond retirement fund, and \$30,688 in the permanent improvement fund.

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

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

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(Continued)

| | 2002 Second Half Collections | | 2003 First Half Collections | |
|--|---------------------------------|---------|--------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/residential and public utility real estate | \$ 108,855,740 | 50.36% | \$ 111,791,220 | 51.26% |
| Commercial/industrial real estate | 42,131,710 | 19.49% | 42,602,610 | 19.54% |
| Public utility personal | 8,867,490 | 4.10% | 9,070,980 | 4.16% |
| Tangible personal property | <u>56,320,483</u> | 26.05% | <u>54,603,944</u> | 25.04% |
| Total | <u>\$ 216,175,423</u> | 100.00% | <u>\$ 218,068,754</u> | 100.00% |

Tax rate per \$1,000 of
assessed valuation for:

| | | |
|-----------------------|----------|----------|
| Operations | \$ 46.25 | \$ 50.55 |
| Debt Service | 3.40 | 3.40 |
| Permanent Improvement | 1.73 | 1.73 |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), internal loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

| | |
|-------------------|---------------------|
| Property taxes | \$ 8,897,976 |
| Accounts | 15,247 |
| Intergovernmental | <u>216,032</u> |
| Total | <u>\$ 9,129,255</u> |

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

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NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H. for detail), fund reclassifications, recording assets erroneously omitted in prior years, and the depreciation of capital assets in accordance with GASB Statement No. 34.

| | <u>6/30/02</u> | <u>Balance Adjustments</u> | <u>Restated Balance 6/30/02</u> |
|---|----------------------|--------------------------------|---|
| Governmental Activities: | | | |
| <i>Capital assets, not being depreciated:</i> | | | |
| Land | \$ 313,062 | \$ - | \$ 313,062 |
| Total capital assets, not being depreciated | <u>313,062</u> | <u>-</u> | <u>313,062</u> |
| <i>Capital assets, being depreciated:</i> | | | |
| Land improvements | - | 1,259,627 | 1,259,627 |
| Buildings and improvements | 19,685,052 | (422,792) | 19,262,260 |
| Furniture and equipment | 4,919,359 | (3,605,105) | 1,314,254 |
| Vehicles | <u>1,092,189</u> | <u>(96,989)</u> | <u>995,200</u> |
| Total capital assets, being depreciated | <u>25,696,600</u> | <u>(2,865,259)</u> | <u>22,831,341</u> |
| <i>Less: accumulated depreciation</i> | <u>-</u> | <u>(12,090,567)</u> | <u>(12,090,567)</u> |
| Governmental activities capital assets, net | <u>\$ 26,009,662</u> | <u>\$ (14,955,826)</u> | <u>\$ 11,053,836</u> |

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(Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

| | Restated Balance <u>06/30/02</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>06/30/03</u> |
|---|--|---------------------|-------------------|----------------------------|
| Governmental Activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 313,062 | \$ - | \$ - | \$ 313,062 |
| Total capital assets, not being depreciated | <u>313,062</u> | <u>-</u> | <u>-</u> | <u>313,062</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,259,627 | 39,694 | - | 1,299,321 |
| Buildings and improvements | 19,262,260 | 12,534 | - | 19,274,794 |
| Furniture and equipment | 1,314,254 | 58,999 | - | 1,373,253 |
| Vehicles | <u>995,200</u> | <u>-</u> | <u>(109,804)</u> | <u>885,396</u> |
| Total capital assets, being depreciated | <u>22,831,341</u> | <u>111,227</u> | <u>(109,804)</u> | <u>22,832,764</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (942,090) | (52,449) | - | (994,539) |
| Buildings and improvements | (9,653,376) | (440,065) | - | (10,093,441) |
| Furniture and equipment | (774,846) | (118,342) | - | (893,188) |
| Vehicles | <u>(720,255)</u> | <u>(55,321)</u> | <u>109,804</u> | <u>(665,772)</u> |
| Total accumulated depreciation | <u>(12,090,567)</u> | <u>(666,177)</u> | <u>109,804</u> | <u>(12,646,940)</u> |
| Governmental activities capital assets, net | <u>\$ 11,053,836</u> | <u>\$ (554,950)</u> | <u>\$ -</u> | <u>\$ 10,498,886</u> |

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(Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|--------------------------|
| Instruction: | |
| Regular | \$ 421,759 |
| Special | 21,013 |
| Vocational | 3,086 |
| | |
| Support Services: | |
| Pupil | 4,636 |
| Instructional staff | 30,272 |
| Administration | 25,285 |
| Fiscal | 1,445 |
| Operations and maintenance | 33,273 |
| Pupil transportation | 56,799 |
| Central | 4,489 |
| Extracurricular activities | 23,900 |
| Food service operations | <u>40,220</u> |
| <i>Total depreciation expense</i> | <u><u>\$ 666,177</u></u> |

NOTE 9 - CAPITAL LEASES

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

Capital assets consisting of equipment have been capitalized in the statement of net assets in the amount of \$453,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Interest payments in fiscal year 2003 totaled \$19,000 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

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(Continued)

| Fiscal Year Ending June 30, 2003 | Amount |
|---|------------|
| 2004 | \$ 281,497 |
| 2005 | 100,505 |
| 2006 | 100,832 |
| Total | 482,834 |
| Less: amount representing interest | (29,834) |
| Present value of minimum lease payments | \$ 453,000 |

NOTE 10 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for administrators, 235 day for certified and secretaries/fiscal services personnel and 230 day for classified. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and secretaries/fiscal services personnel, 57 days for certified employees and up to a maximum 60 days for administrators.

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$95,549 from \$1,018,980 to \$1,114,529 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$140,836 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. In addition, accreted interest has been recorded on the middle school refinancing capital appreciation bonds in the amount of \$240,976 have been restated to properly reflect future debt requirements. The effect on the total governmental activities long-term obligations at July 1, 2002 was an increase of

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

\$195,689 from \$9,765,292 to \$9,960,981. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

| | Interest Rate | Restated Balance at 06/30/02 | Additions | Disposals | Balance at 06/30/03 | Amount Due in One Year |
|--|------------------|------------------------------------|-------------------|---------------------|------------------------|------------------------------|
| Middle school refinancing bonds | 3.70% | \$ 7,784,481 | \$ 108,245 | \$ (500,000) | \$ 7,392,726 | \$ 560,000 |
| School bus bonds | 5.5-6.1% | 85,000 | - | (25,000) | 60,000 | 30,000 |
| School bus bonds | 5.00% | <u>28,000</u> | <u>-</u> | <u>(28,000)</u> | <u>-</u> | <u>-</u> |
| Total general obligation bonds payable | | <u>7,897,481</u> | <u>108,245</u> | <u>(553,000)</u> | <u>7,452,726</u> | <u>590,000</u> |
| HB 264 lighting loan | 4.80% | 171,236 | - | (28,539) | 142,697 | 28,539 |
| Energy conservation loan | 5.50% | <u>324,735</u> | <u>-</u> | <u>(86,761)</u> | <u>237,974</u> | <u>91,599</u> |
| Total loans payable | | <u>495,971</u> | <u>-</u> | <u>(115,300)</u> | <u>380,671</u> | <u>120,138</u> |
| Capital leases | | 453,000 | - | - | 453,000 | 263,000 |
| Compensated absences payable | | <u>1,114,529</u> | <u>342,664</u> | <u>(188,915)</u> | <u>1,268,278</u> | <u>106,014</u> |
| Total other long-term obligations | | <u>1,567,529</u> | <u>342,664</u> | <u>(188,915)</u> | <u>1,721,278</u> | <u>369,014</u> |
| Total | | <u>\$ 9,960,981</u> | <u>\$ 450,909</u> | <u>\$ (857,215)</u> | <u>\$ 9,554,675</u> | <u>\$ 1,079,152</u> |

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

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$2,980,000. The interest rates on the current interest bonds range from 3.20 percent to 4.70 percent. The capital appreciation bonds mature on December 1, 2010 (effective interest 16.57 percent), December 1, 2011 (effective interest 16.52 percent), December 1, 2012 (effective interest 16.54 percent) and December 1, 2013 (effective interest 16.51 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2002 was \$413,505. A total of \$349,221 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2003.

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Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2017.

The following is a schedule of activity for fiscal 2003 on the middle school refinancing general obligation bonds:

| | Balance at 06/30/02 | Additions | Reductions | Balance at 06/30/03 |
|----------------------------|------------------------|-------------------|---------------------|------------------------|
| Current interest bonds | \$ 7,130,000 | \$ - | \$ (500,000) | \$ 6,630,000 |
| Capital appreciation bonds | <u>654,481</u> | <u>108,245</u> | <u>-</u> | <u>762,726</u> |
| Total G.O. bonds | <u>\$ 7,784,481</u> | <u>\$ 108,245</u> | <u>\$ (500,000)</u> | <u>\$ 7,392,726</u> |

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

| Fiscal Year Ended | Current Interest Bonds | | | Capital Appreciation Bonds | | |
|----------------------|------------------------|---------------------|---------------------|----------------------------|-------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2004 | \$ 560,000 | \$ 272,320 | \$ 832,320 | \$ - | \$ - | \$ - |
| 2005 | 585,000 | 250,273 | 835,273 | - | - | - |
| 2006 | 600,000 | 226,865 | 826,865 | - | - | - |
| 2007 | 635,000 | 202,007 | 837,007 | - | - | - |
| 2008 | 660,000 | 175,618 | 835,618 | - | - | - |
| 2009 - 2013 | 1,400,000 | 574,617 | 1,974,617 | 2,235,000 | - | 2,235,000 |
| 2014 - 2018 | <u>2,190,000</u> | <u>254,977</u> | <u>2,444,977</u> | <u>745,000</u> | <u>-</u> | <u>745,000</u> |
| Total | <u>\$ 6,630,000</u> | <u>\$ 1,956,677</u> | <u>\$ 8,586,677</u> | <u>\$ 2,980,000</u> | <u>\$ -</u> | <u>\$ 2,980,000</u> |

- C. On June 30, 1998, the District issued bonds in the amount of \$129,000 for the purpose of purchasing school buses for the District. The bonds were issued for a six-year period with final maturity during fiscal year 2003. The bonds were retired from the debt service fund.

On June 1, 2000, the District issued bonds in the amount of \$134,000 for the purpose of paying part of the costs of acquiring school buses, including financing charges in connection with the Ohio School Districts 2000 Bus Borrowing Program. The issuance of such bonds is pursuant to Chapter 133 of the Ohio Revised Code and §3327.08. The bonds were issued for a five-year period with final maturity on April 15, 2005. The bonds will be retired from the debt service fund.

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(Continued)

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

| Fiscal Year Ended | Principal | Interest | Total |
|----------------------|------------------|-----------------|------------------|
| 2004 | \$ 30,000 | \$ 3,540 | \$ 33,540 |
| 2005 | <u>30,000</u> | <u>1,830</u> | <u>31,830</u> |
| Total | <u>\$ 60,000</u> | <u>\$ 5,370</u> | <u>\$ 65,370</u> |

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

On May 15, 1997, the District issued \$806,995 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code §133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2006. The loan will be retired from the debt service fund.

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

| Fiscal Year Ending | Principal | Interest | Total |
|-----------------------|-------------------|------------------|-------------------|
| 2004 | \$ 120,140 | \$ 18,712 | \$ 138,852 |
| 2005 | 125,248 | 12,237 | 137,485 |
| 2006 | 78,205 | 5,476 | 83,681 |
| 2007 | 28,539 | 2,740 | 31,279 |
| 2008 | <u>28,539</u> | <u>1,370</u> | <u>29,909</u> |
| Total | <u>\$ 380,671</u> | <u>\$ 40,535</u> | <u>\$ 421,206</u> |

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further

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provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$13,448,307 (including available funds of \$918,624) and an unvoted debt margin of \$218,069.

NOTE 12 - NOTE ACTIVITY

During fiscal year 2003, the District issued and retired a \$871,000 tax revenue anticipation note for the purpose of paying current expenses. The note was a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The proceeds of the note were received in the general fund, the fund which subsequently retired the note.

The following is a description of the note activity during fiscal year 2003:

| | Issue Date | Maturity Date | Interest Rate | Balance at 07/01/02 | Issued in 2003 | Retired in 2003 | Balance at 06/30/03 |
|----------------------------------|---------------|------------------|------------------|------------------------|-------------------|--------------------|------------------------|
| Tax revenue anticipation note | 07/01/02 | 06/30/03 | 2.27% | \$ - | \$ 871,000 | \$ (871,000) | \$ - |

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

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

| | |
|---------------------------------------|-------------|
| Coverage provided by Ohio School Plan | |
| General Liability | |
| General Aggregate | \$3,000,000 |
| Employee Benefit Liability | |
| Each Occurrence Limit | 1,000,000 |
| Aggregate | 3,000,000 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

| | |
|-----------------------------------|-----------|
| Employees' Liability and Stop Gap | |
| Liability | 1,000,000 |
| Educational Legal | |
| Aggregate | 2,000,000 |
| Auto Coverage | |
| Liability | 1,000,000 |
| Liability | 2,000,000 |

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

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

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

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees through Lafayette Life in the amounts ranging from \$5,000 to \$50,000 depending on position held and hours worked.

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. The medical plan is administered by Unicare. The total monthly premium for medical is \$425.70 for single coverage and \$929.54 for family coverage. The District's portion of the monthly premium is \$383.13 for single coverage and \$836.59 for family coverage, which is paid out of the same fund that pays the salary for the employees. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$42.57 for single coverage and \$92.95 for family coverage, which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully-insured basis through Core Source. The total monthly premium is \$55.96 for single and \$55.96 for family coverage. This premium includes the employee portion, which is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised, except through negotiated agreement.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

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

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will 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. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$201,747, \$439,098, and \$462,305, respectively; 46.12 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$186,276 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,137,283, \$1,398,931, and \$1,311,506, respectively; 83.25 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$205,186 represents the unpaid contribution for fiscal year 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$2,354 made by the School District and \$6,816 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$87,483 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$194,773 during the 2003 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

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

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

| Net Change in Fund Balance | |
|---|---------------------|
| | <u>General Fund</u> |
| Budget basis | \$ (492,199) |
| Net adjustment for revenue accruals | (5,868) |
| Net adjustment for expenditure accruals | 907,079 |
| Net adjustment for other sources/uses | (865,362) |
| Adjustment for encumbrances | 865,321 |
| GAAP basis | \$ 408,971 |

NOTE 17 - CONTINGENCIES

A. Grants

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 18 - STATUTORY RESERVES

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 year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|------------------|--------------------------------|---------------------------------|
| Set-aside cash balance as of June 30, 2002 | \$ 23,046 | \$ - | \$ 89,109 |
| Current year set-aside requirement | 312,350 | 312,350 | - |
| Current year offsets | - | - | - |
| Qualifying disbursements | <u>(250,322)</u> | <u>(385,219)</u> | <u>-</u> |
| Total | <u>\$ 85,074</u> | <u>\$ (72,869)</u> | <u>\$ 89,109</u> |
| Cash balance carried forward to FY 2004 | <u>\$ 85,074</u> | <u>\$ -</u> | <u>\$ 89,109</u> |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

A schedule of the restricted assets at June 30, 2003 follows:

| | |
|-----------------------------------|--------------------------|
| Amount restricted for BWC refunds | \$ 89,109 |
| Amount restricted for textbooks | <u>85,074</u> |
| Total restricted assets | <u><u>\$ 174,183</u></u> |

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**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Federal CFDA Number | Grant Number |
|---|---------------------------|-------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i> | | |
| <u>Nutrition Cluster:</u> | | |
| Food Donation | 10.550 | |
| School Breakfast Program | 10.553 | 05PU-2002 05PU-2003 |
| Total School Breakfast Program | | |
| National School Lunch Program | 10.555 | LLP1-2003 LLP4-2002 LLP4-2003 |
| Total - National School Lunch Program | | |
| Total U.S. Department of Agriculture - Nutrition Cluster | | |
| U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i> | | |
| Adult Education - State Grant Program | 84.002 | ABS1-2002 ABS1-2002-C |
| Total - Adult Education - State Grant Program | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1S1-2002 C1S1-2003 |
| Total - Title I Grants to Local Educational Agencies | | |
| <u>Special Education Cluster:</u> | | |
| Special Education - Grants to States | 84.027 | 6BSF-2001 6BEC-2000 6BSF-2002 |
| Total - Special Education Grants to States | | |
| Special Education - Preschool Grants | 84.173 | PGSC-2001 PGS1-2001 PGS1-2002 |
| Total - Special Education Preschool Grants | | |

| <u>Receipts</u> | <u>Non-Cash Receipts</u> | <u>Disbursements</u> | <u>Non-Cash Disbursements</u> |
|-----------------------|------------------------------|-----------------------|-----------------------------------|
| | \$ 68,812 | | \$ 68,812 |
| \$ 10,400 | | \$ 10,400 | |
| 56,159 | | 56,159 | |
| <u>66,559</u> | | <u>66,559</u> | |
| 2,552 | | 2,552 | |
| 57,941 | | 57,941 | |
| <u>278,741</u> | | <u>278,741</u> | |
| <u>339,234</u> | | <u>339,234</u> | |
| <u>405,793</u> | <u>68,812</u> | <u>405,793</u> | <u>68,812</u> |
| 15,808 | | 15,808 | |
| 6,769 | | 5,745 | |
| <u>22,577</u> | | <u>21,553</u> | |
| 101,895 | | 99,395 | |
| <u>570,546</u> | | <u>561,478</u> | |
| <u>672,441</u> | | <u>660,873</u> | |
| 66,151 | | 40,511 | |
| 359,056 | | 36 | |
| <u>425,207</u> | | <u>346,021</u> | |
| | | <u>386,568</u> | |
| 8,035 | | 3,645 | |
| <u>39,693</u> | | <u>6,279</u> | |
| <u>47,728</u> | | <u>39,693</u> | |
| | | <u>49,617</u> | |

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Federal CFDA Number | Grant Number |
|--|---------------------------|-------------------------------------|
| Total Special Education Cluster | | |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | DRS1-2001 DRS1-2002 DRS1-2003 |
| Total - Safe and Drug Free Schools and Communities - State Grants | | |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | G2S2-2001 G2SP-2001 |
| Total - Goals 2000 | | |
| Eisenhower Professional Development State Grants | 84.281 | MSS1-2002 |
| Innovative Education Program Strategies | 84.298 | C2S1-2001 C2S1-2002 C2S1-2003 |
| Total - Innovative Education Program Strategies | | |
| Technology Literacy Challenge Fund Grants | 84.318 | TJS1-2003 |
| Comprehensive School Reform Demonstration | 84.332 | RFS1-2001 RFS1-2002 RFS2-2002 |
| Total - Comprehensive School Reform Demonstration | | |
| Class Size Reduction | 84.340 | CRS1-2002 |
| Improving Teacher Quality State Grants | 84.367 | TRS1-2003 |
| Total U.S. Department of Education | | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | |
| <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i> | | |
| Medical Assistance Program (Medicaid: Title XIX) | 93.778 | |
| Total Federal Awards Expenditures | | |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

| <u>Receipts</u> | <u>Non-Cash Receipts</u> | <u>Disbursements</u> | <u>Non-Cash Disbursements</u> |
|--------------------|------------------------------|----------------------|-----------------------------------|
| 472,935 | | 436,185 | |
| | | 351 | |
| 17,628 | | 23,318 | |
| 18,571 | | 14,777 | |
| 36,199 | | 38,446 | |
| | | 5,105 | |
| | | 899 | |
| | | 6,004 | |
| (7,400) | | 8,010 | |
| | | 167 | |
| 11,244 | | 5,196 | |
| 11,781 | | 1,708 | |
| 23,025 | | 7,071 | |
| 17,685 | | 12,666 | |
| | | 3,607 | |
| 75,000 | | 42,880 | |
| 62,500 | | 51,123 | |
| 137,500 | | 97,610 | |
| 29,563 | | 21,616 | |
| 151,032 | | 65,636 | |
| 1,555,557 | | 1,375,670 | |
| 82,148 | | 82,148 | |
| \$2,043,498 | \$68,812 | \$1,863,611 | \$68,812 |

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

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

NOTE C - MATCHING REQUIREMENTS

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

NOTE D - NEGATIVE RECEIPTS

CFDA # 84.281 includes a negative receipt of \$7,400 due to a transfer of \$9,000 from CFDA #84.281 to CFDA #84.367 due to the elimination of CFDA #84.281.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fostoria City School District (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 25, 2004 in which we noted that the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and changed its capital assets threshold policy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated August 25, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated August 25, 2004.

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



Betty Montgomery
Auditor of State

August 25, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fostoria City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

August 25, 2004

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Title I CFDA #84.010 Special Education Cluster CFDA #84.027 CFDA #84.173 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

FINDING NUMBER 2003-001

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirement:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000 (\$3,000 after April 7, 2003) the fiscal officer may authorize it to be paid without the affirmation of the Board, if such expenditure is otherwise valid.

Twenty-five percent of transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. To improve controls over disbursements we recommend all District disbursements receive certification of the fiscal officer that the funds are or will be available prior to the expense being incurred.

FINDING NUMBER 2003-002

Ohio Revised Code §5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds had negative cash balances as follows:

**FINDING NUMBER 2003-002
 (Continued)**

| <u>Date</u> | <u>Fund</u> | <u>Amount</u> |
|------------------|--------------------------------|---------------|
| October 31, 2002 | Food Service | \$ 66,471 |
| | Management Information System | 387 |
| | Summer Intervention | 5,110 |
| | Title VI-B | 126,403 |
| | Title I | 168,661 |
| | EHA Preschool Grant | 7,646 |
| January 31, 2003 | Management Information System | \$ 648 |
| | Summer Intervention | 5,555 |
| | Title I | 38,787 |
| May 31, 2003 | Food Service | \$ 7,802 |
| | Disadvantaged Pupil Impact Aid | 35,350 |
| | Summer Intervention | 5,894 |
| | Alternative Education Grant | 36 |
| | Adult Basic Education | 22,488 |

The deficits were the result of spending expected revenues prior to actually receiving the funds. We recommend deficit fund balances be prohibited. Further, advances should be made prior to fund cash balances becoming deficit.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> : |
|----------------|---|------------------|---|
| 2002-001 | Findings for Recovery against Student Activity Advisors | Yes | |
| 2002-002 | ORC § 5705.36 Required Amended Certificate of Estimated Resources | Yes | |
| 2002-003 | Fixed Asset records not maintained | Yes | |
| 2002-004 | Student Activity Fund-raiser weaknesses | No | Partially corrected. Reported in the management letter. |



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FOSTORIA CITY SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 21, 2004**