



**Auditor of State
Betty Montgomery**

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Board of Education
Fredericktown Local School District
Knox County
134 West Second Street
Fredericktown, Ohio 43019

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio (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, the business-type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2003 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.

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

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

Betty Montgomery
Auditor of State

December 4, 2003

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ In total, net assets decreased \$962,077. Net assets of governmental activities decreased \$941,226, which represents a 36 percent decrease from 2002. Net assets of business-type activities decreased \$20,851 from 2002.
- ❑ For governmental activities general revenues accounted for \$8.1 million in revenue or 92 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$0.7 million or 8 percent of total revenues of \$8.8 million.
- ❑ The School District had \$9.7 million in expenses related to governmental activities; only \$0.7 million of these expenses were offset by program specific charges for services, grants or contributions.
- ❑ Among major funds, the general fund had \$7.3 million in revenues and \$7.8 million in expenditures. The general fund's fund balance decreased \$463,789 to \$1.9 million.
- ❑ Net assets for enterprise funds decreased by \$20,851. Operating expenses of \$380,006 exceeded operating revenues of \$221,961 and grants of \$82,194. A \$55,000 transfer was made from the general fund.

Using this Annual Financial Report (AFR)

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

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 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 School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. Changes to our net assets are a direct result of property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

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

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

- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District food service and uniform school supplies programs are reported as a business activity.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, debt service fund and the building construction capital projects fund.

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

(Table 1)
 Net Assets
 (In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$8.8	\$13.8	\$0.0	\$0.1	\$8.8	\$13.9
Capital Assets	8.8	3.2	0.1	0.0	8.9	3.2
Total Assets	17.6	17.0	0.1	0.1	17.7	17.1
Liabilities						
Long-Term Liabilities	(8.6)	(8.6)	0.0	0.0	(8.6)	(8.6)
Other Liabilities	(5.4)	(3.8)	0.0	0.0	(5.4)	(3.8)
Total Liabilities	(14.0)	(12.4)	0.0	0.0	(14.0)	(12.4)
Net Assets						
Invested in Capital Assets, Net of Debt	1.2	1.8	0.1	0.1	1.3	1.9
Restricted	1.8	0.8	0.0	0.0	1.8	0.8
Unrestricted (Deficit)	0.6	2.0	0.0	0.0	0.6	2.0
Total Net Assets	\$3.6	\$4.6	\$0.1	\$0.1	\$3.7	\$4.7

Net assets of the School District's governmental activities decreased.

The net assets of the School District business-type activities remained constant from the prior year. The general fund transferred \$55,000 to the food service fund to account for increased expenses. The last increase in student lunch fees occurred in 2002.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2 shows the changes in net assets for fiscal year 2003.

Table 2
Changes in Net Assets
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues:						
Charges for Services	\$0.3	\$0.3	\$0.2	\$0.2	\$0.5	\$0.5
Operating Grants	0.4	0.6	0.1	0.1	0.5	0.7
Capital Grants	0.0	0.1	0.0	0.0	0.0	0.1
Total Program Revenues	0.7	1.0	0.3	0.3	1.0	1.3
General Revenues:						
Property Taxes	3.3	3.5	0.0	0.0	3.3	3.5
Grants and Entitlements	4.4	3.9	0.0	0.0	4.4	3.9
Other	0.4	0.6	0.0	0.0	0.4	0.6
Total General Revenues	8.1	8.0	0.0	0.0	8.1	8.0
Total Revenues	8.8	9.0	0.3	0.3	9.1	9.3
Expenses						
Instruction	5.4	5.5	0.0	0.0	5.4	5.5
Support Services:						
Pupil and Instructional Staff	1.0	0.7	0.0	0.0	1.0	0.7
Board of Education, Administration, Fiscal and Business	1.3	0.9	0.0	0.0	1.3	0.9
Operation and Maintenance of Plant	0.6	0.5	0.0	0.0	0.6	0.5
Pupil Transportation	0.6	0.5	0.0	0.0	0.6	0.5
Extracurricular Activities	0.4	0.4	0.0	0.0	0.4	0.4
Interest and Fiscal Charges	0.4	0.4	0.0	0.0	0.4	0.4
Food Service/School Supplies	0.0	0.0	0.4	0.3	0.4	0.3
Total Expenses	9.7	8.9	0.4	0.3	10.1	9.2
Increase (Decrease) in Net Assets						
Before Transfers	(0.9)	0.1	(0.1)	0.0	(1.0)	0.1
Transfers	(0.1)	(0.1)	0.1	0.0	0.0	(0.1)
Increase (Decrease) in Net Assets	(\$1.0)	\$0.0	\$0.0	\$0.0	(\$1.0)	(\$0.0)

Expenses increased due to new costs associated with the new building.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a vote does not increase as a result of inflation. As an example, a homeowner with a home valued at \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$3.3 million in 2003. General revenues from grants and entitlements, such as the school foundation program, generated \$4.4 million. With the combination of taxes and intergovernmental funding over 78 percent of all expenses and intergovernmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 56 percent of governmental program expenses. Interest expense was 4.1 percent. Interest expense was attributable to the outstanding construction bond.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

Table 3
 Governmental Activities
 (In Millions)

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Instruction	\$5.4	\$5.5	\$5.1	\$4.8
Support Services:				
Pupil and Instructional Staff	1.0	0.7	0.9	0.7
Board of Education, Administration, Fiscal and Business	1.3	0.9	1.3	0.9
Operation and Maintenance of Plant	0.6	0.5	0.5	0.5
Pupil Transportation	0.6	0.5	0.6	0.4
Extracurricular Activities	0.4	0.4	0.3	0.2
Interest and Fiscal Charges	0.4	0.4	0.4	0.4
Total Expenses	\$9.7	\$8.9	\$9.1	\$7.9

Business-Type Activities

Business-type activities include the food service operation and uniform school supplies. These programs had revenues of \$304,155 and expenses of \$380,006 for fiscal year 2003. Management regularly reviews these programs and food service fees have not been increased since 2002. To also insure that the net assets are not reduced in fiscal year 2004, the School District is taking steps to reduce expenses.

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8.8 million and expenditures of \$15.2 million. The difference of \$6.4 million is primarily due to the current year expending of the bond proceeds which were received in the previous fiscal year.

General Fund Budgeting Highlights

The School 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 2003, the School District amended its general fund budget numerous times to allow for the advance to the self-funded insurance fund and other less significant amendments.

For the general fund, budget basis revenue was \$7.9 million, above original budget estimates of \$7.3 million. Of this \$0.6 million difference, most was due to taxes and intergovernmental revenues.

The original appropriations of \$9.0 million stayed fairly constant. Expenditures, however, were only \$7.9 million or \$1.1 million less than anticipated. This \$1.1 difference is due to the fact that the full amount available to appropriate was appropriated in the beginning of the fiscal year; however, the full amount was more than what the School District actually expended during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$8.9 million invested in land, buildings, equipment, vehicles and construction in progress with \$8.8 million used for governmental activities. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002:

(Table 4)
Capital Assets at June 30
(Net of Depreciation, in Millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$0.4	\$0.4	\$0.0	\$0.0	\$0.4	\$0.4
Land Improvements	0.1	0.1	0.0	0.0	0.1	0.1
Buildings and Improvements	0.4	0.5	0.0	0.0	0.4	0.5
Furniture and Equipment	0.4	0.5	0.1	0.1	0.5	0.6
Vehicles	0.4	0.3	0.0	0.0	0.4	0.3
Construction in Progress	7.1	1.4	0.0	0.0	7.1	1.4
Totals	<u>\$8.8</u>	<u>\$3.2</u>	<u>\$0.1</u>	<u>\$0.1</u>	<u>\$8.9</u>	<u>\$3.3</u>

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The primary increase occurred with construction in progress, as a result of the K-3 building construction being underway. For more information on capital assets, refer to Note 8 to the Basic Financial Statements.

For fiscal year 2001, a change in Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2003, this amounted to \$149,053 for each set aside. For fiscal year 2003, the School District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The School District has budgeted to meet these requirements.

Debt

At June 30, 2003 the School District had \$7.9 million in bonds outstanding with \$135,000 due within one year. Table 5 summarizes the bonds outstanding:

(Table 5)
Outstanding Debt, at Year End
(In Millions)

	Governmental Activities 2003	Governmental Activities 2002
General Obligation Bonds:		
2001 School Improvements	\$7.8	\$7.9
Energy Conservation Bonds	0.1	0.1
Total	\$7.9	\$8.0

The energy conservation bonds were issued to replace heating systems and lighting systems at one high school. It is to be repaid in annual installments through June, 2008, from the General Fund.

The electors of the School District approved the issuance of bonds in the amount of \$7.9 million at the election held on November 7, 2001, and bonds were issued pursuant to such voted authority. The bonds were issued for the construction of a discrete portion of a K-8 facility to serve grades K-3; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the site. The School District has been approved to participate in the Expedited Local Partnership Program of the Ohio School Facilities Commission, under which the State will fund 71 percent of the School District's future facility needs after the issuance of the bonds.

At June 30, 2003, the School District's overall legal debt margin was \$3,427,816 with an unvoted debt margin of \$120,596. The School District maintains an Aa-3 bond rating. For more information, refer to Note 13 to the Basic Financial Statements.

Current Issues Affecting Financial Condition

On June 20, 2002, the general fund advanced \$200,000 to the self-insurance fund to off-set a deficit balance, with anticipation of returning the money in fiscal year 2003. Even with a twenty two percent increase in premiums, the district had to change the advance to a transfer in March 2003. The school district, again, had to advance \$120,000 from the general fund to the self-insurance fund on June 17,

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

2003. A thirty six percent increase in premiums was implemented effective July 1, 2003. The claims continue to increase more than our premiums. The district has established a medical benefits committee of staff, administration and board members to explore ways of reducing premiums with minimal effect on the plan benefits.

The end of fiscal year 2001 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on August 2, 2001. The economic package contained in the new contract provides for four percent annual increases. The end of fiscal year 2001 also marked the expiration of the classified employees three year contract. A new three-year labor agreement was approved June 12, 2001. Their economic package contained in the new contract provides for 3-3-3.5 percent annual increases. Both labor agreements contained increases in insurance premiums, the addition of a 125 cafeteria plan and the implementation of a medical spending reserve plan effective with the 2002-2003 school year.

On August 14, 2000, the State Controlling Board approved the School District's participation in the Expedited Local Partnership Program (the "Expedited Program) under which the State will fund 71 percent of the School District's future facility needs after its issuance of the bonds.

Under the Expedited Program, a school district may enter into an agreement with the Ohio School Facilities Commission under which the school district proceeds with the new construction or major repairs of a separate and discrete portion of the school district's classroom facilities needs through the expenditure of "local resources." "Local resources" are defined as "any moneys generated in any manner" permitted for a school district portion of a school facilities project. In order to be eligible for the Expedited Program, a school district must submit a resolution passed by the school board certifying to the Commission the school district's request to participate in the Expedited Program.

Once the school district is approved for the Expedited Program, the Commission conducts an assessment and develops a current master plan for the school district. As with the Facilities Program, the Commission establishes a basic project cost, and subsequently, the state and local share percentage are determined pursuant to Chapter 3318, Ohio Revised Code. Once the master plan is complete, the school district may proceed with and pay for the discrete portion of the master plan with local resources, and may choose to fund the maintenance obligation that will be ultimately required when the school district qualifies for the Facilities Program. The master plan expenditures, if qualifying, will then count toward the local share of the Facilities Program when the school district becomes eligible for the Facilities Program. When the school district is eligible for the Facilities Program, the Commission will conduct a new assessment of the school district's facilities and may determine that additional facility improvements are required. In some cases, this would require the school district to provide additional local resources to meet its local share percentage, possibly including seeking voter approval for an additional bond issue.

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the District. Management must plan expenses accordingly, staying within the School District's five-year plan.

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

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

Fredericktown Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

Unaudited

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

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the School District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Pat Miller, Treasurer at Fredericktown Local School District, 134 West Second Street, Fredericktown, Ohio 43019. Or e-mail at pat_m@treca.org.

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Fredericktown Local School District

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,926,979	\$58,084	\$2,985,063
Cash and Cash Equivalents			
With Fiscal Agents	380,383	0	380,383
Investments	1,375,783	0	1,375,783
Accounts Receivable	221	0	221
Intergovernmental Receivable	22,632	0	22,632
Prepaid Items	510	0	510
Taxes Receivable	4,045,576	0	4,045,576
Inventory Held for Resale	0	3,319	3,319
Deferred Charges	92,027	0	92,027
Nondepreciable Capital Assets	7,542,409	0	7,542,409
Depreciable Capital Assets, Net	1,273,822	43,546	1,317,368
<i>Total Assets</i>	<u>17,660,342</u>	<u>104,949</u>	<u>17,765,291</u>
Liabilities			
Accounts Payable	68,732	52	68,784
Contracts Payable	515,115	0	515,115
Accrued Wages Payable	556,124	19,533	575,657
Intergovernmental Payable	196,558	18,694	215,252
Retainage Payable	298,866	0	298,866
Deferred Revenue	3,356,502	388	3,356,890
Matured Bonds Payable	48,000	0	48,000
Matured Interest Payable	13,020	0	13,020
Accrued Interest Payable	35,400	0	35,400
Claims Payable	340,926	0	340,926
Long-Term Liabilities:			
Due Within One Year	300,396	2,722	303,118
Due In More Than One Year	8,295,203	15,971	8,311,174
<i>Total Liabilities</i>	<u>14,024,842</u>	<u>57,360</u>	<u>14,082,202</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,220,007	43,546	1,263,553
Restricted for:			
Capital Projects	1,366,036	0	1,366,036
Debt Service	356,277	0	356,277
Other Purposes	111,838	0	111,838
Unrestricted	581,342	4,043	585,385
<i>Total Net Assets</i>	<u>\$3,635,500</u>	<u>\$47,589</u>	<u>\$3,683,089</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$4,053,238	\$100,328	\$28,319	\$10,500
Special	1,258,683	1,082	286,996	0
Vocational	80,086	0	0	0
Adult/Continuing	1,200	0	0	0
Support Services:				
Pupil	296,814	0	7,548	0
Instructional Staff	736,966	0	90,882	0
Board of Education	49,093	0	0	0
Administration	974,416	0	4,807	0
Fiscal	245,809	0	0	0
Business	41,689	0	0	0
Operation and Maintenance of Plant	553,333	3,310	4,355	446
Pupil Transportation	560,775	0	0	0
Operation of Non-Instructional Services	16,892			
Extracurricular Activities	429,802	168,134	0	0
Interest and Fiscal Charges	408,943	0	0	0
<i>Total Governmental Activities</i>	<u>9,707,739</u>	<u>272,854</u>	<u>422,907</u>	<u>10,946</u>
Business-Type Activities				
Food Service	340,175	190,092	82,194	0
Uniform School Supplies	39,831	31,869	0	0
<i>Total Business-Type Activities</i>	<u>380,006</u>	<u>221,961</u>	<u>82,194</u>	<u>0</u>
<i>Totals</i>	<u><u>\$10,087,745</u></u>	<u><u>\$494,815</u></u>	<u><u>\$505,101</u></u>	<u><u>\$10,946</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated (Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$3,914,091)	\$0	(\$3,914,091)
(970,605)	0	(970,605)
(80,086)	0	(80,086)
(1,200)	0	(1,200)
(289,266)	0	(289,266)
(646,084)	0	(646,084)
(49,093)	0	(49,093)
(969,609)	0	(969,609)
(245,809)	0	(245,809)
(41,689)	0	(41,689)
(545,222)	0	(545,222)
(560,775)	0	(560,775)
(16,892)	0	(16,892)
(261,668)	0	(261,668)
(408,943)	0	(408,943)
<u>(9,001,032)</u>	<u>0</u>	<u>(9,001,032)</u>
0	(67,889)	(67,889)
<u>0</u>	<u>(7,962)</u>	<u>(7,962)</u>
0	(75,851)	(75,851)
<u>(9,001,032)</u>	<u>(75,851)</u>	<u>(9,076,883)</u>
2,611,760	0	2,611,760
461,595	0	461,595
198,127	0	198,127
4,395,169	0	4,395,169
130,451	0	130,451
317,704	0	317,704
<u>8,114,806</u>	<u>0</u>	<u>8,114,806</u>
(55,000)	55,000	0
<u>8,059,806</u>	<u>55,000</u>	<u>8,114,806</u>
(941,226)	(20,851)	(962,077)
<u>4,576,726</u>	<u>68,440</u>	<u>4,645,166</u>
<u>\$3,635,500</u>	<u>\$47,589</u>	<u>\$3,683,089</u>

Fredericktown Local School District

Balance Sheet

Governmental Funds

June 30, 2003

	<u>General</u>	<u>Bond Retirement Debt Service</u>	<u>Building Construction Capital Projects</u>	<u>Other Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,072,007	\$239,135	\$23,628	\$592,209
Cash and Cash Equivalents With Fiscal Agents	0	61,020	298,866	588
Investments	0	0	1,375,783	0
Accounts Receivable	9	0	0	212
Interfund Receivable	120,000	0	0	0
Intergovernmental Receivable	0	0	0	22,632
Prepaid Items	510	0	0	0
Taxes Receivable	3,188,709	599,311	0	257,556
<i>Total Assets</i>	<u>\$5,381,235</u>	<u>\$899,466</u>	<u>\$1,698,277</u>	<u>\$873,197</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$51,385	\$0	\$0	\$17,347
Accrued Wages and Benefits	523,336	0	0	32,788
Contracts Payable	0	0	515,115	0
Intergovernmental Payable	120,819	0	0	5,743
Matured Bonds Payable	0	48,000	0	0
Matured Interest Payable	0	13,020	0	0
Retainage Payable	0	0	298,866	0
Deferred Revenue	2,763,943	504,298	0	241,065
<i>Total Liabilities</i>	<u>3,459,483</u>	<u>565,318</u>	<u>813,981</u>	<u>296,943</u>
 Fund Balances				
Reserved for Encumbrances	91,335	0	825,620	429,127
Reserved for Property Taxes	424,766	95,013	0	39,123
Unreserved, Undesignated Reported In:				
General Fund	1,405,651	0	0	0
Special Revenue Funds	0	0	0	88,280
Debt Service Funds	0	239,135	0	0
Capital Projects Funds	0	0	58,676	19,724
<i>Total Fund Balances</i>	<u>1,921,752</u>	<u>334,148</u>	<u>884,296</u>	<u>576,254</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,381,235</u>	<u>\$899,466</u>	<u>\$1,698,277</u>	<u>\$873,197</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

<p style="text-align: center;">Total Governmental Funds</p>	<p>Total Governmental Funds Balances</p>	<p>\$3,716,450</p>
	<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$2,926,979	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,816,231
360,474		
1,375,783	Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
221	Property Taxes	130,172
120,000	Intergovernmental	22,632
22,632		
510		
4,045,576	Total	152,804
\$8,852,175	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(441,017)
\$68,732	Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(69,996)
556,124		
515,115	Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on a full accrual basis.	
126,562	Issuance costs	100,907
48,000	Amount expensed	(8,880)
13,020		
298,866	Total	92,027
3,509,306	Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
5,135,725	General Obligation Bonds	(7,760,000)
1,346,082	General Obligation Bond Premium	(95,518)
558,902	Capital Leases	(8,054)
1,405,651	Compensated Absences	(617,027)
88,280	Accrued Interest Payable	(35,400)
239,135	Energy Conservation Bonds	(115,000)
78,400		
3,716,450	Total	(8,630,999)
\$8,852,175	<i>Net Assets of Governmental Activities</i>	\$3,635,500

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Bond Retirement Debt Service	Building Construction Capital Projects	Other Governmental Funds
Revenues				
Taxes	\$2,584,581	\$452,432	\$0	\$195,080
Intergovernmental	4,305,291	61,203	0	439,896
Interest	62,677	0	67,574	200
Tuition and Fees	77,284	0	0	26,732
Extracurricular Activities	0	0	0	165,528
Rentals	3,310	0	0	0
Miscellaneous	310,665	0	0	7,039
<i>Total Revenues</i>	<u>7,343,808</u>	<u>513,635</u>	<u>67,574</u>	<u>834,475</u>
Expenditures				
Current:				
Instruction:				
Regular	3,559,730	0	0	75,428
Special	910,977	0	0	336,471
Vocational	73,116	0	0	0
Adult/Continuing	0	0	0	1,200
Support Services:				
Pupil	279,871	0	0	7,389
Instructional Staff	634,995	0	0	55,744
Board of Education	48,969	0	0	0
Administration	661,436	0	0	8,052
Fiscal	233,209	12,503	0	0
Business	41,689	0	0	0
Operation and Maintenance of Plant	529,678	0	0	5,214
Pupil Transportation	488,558	0	0	0
Operation of Non-Instructional Services	16,037	0	0	0
Extracurricular Activities	238,923	0	0	183,078
Capital Outlay	0	0	6,202,866	62,406
Debt Service:				
Principal Retirement	27,439	85,000	0	0
Interest and Fiscal Charges	7,970	401,805	0	0
<i>Total Expenditures</i>	<u>7,752,597</u>	<u>499,308</u>	<u>6,202,866</u>	<u>734,982</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(408,789)	14,327	(6,135,292)	99,493
Other Financing Uses				
Transfers Out	(55,000)	0	0	0
<i>Net Change in Fund Balances</i>	(463,789)	14,327	(6,135,292)	99,493
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>2,385,541</u>	<u>319,821</u>	<u>7,019,588</u>	<u>476,761</u>
<i>Fund Balances End of Year</i>	<u>\$1,921,752</u>	<u>\$334,148</u>	<u>\$884,296</u>	<u>\$576,254</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003*

Total Governmental Funds		Net Change in Fund Balances - Total Governmental Funds	(\$6,485,261)
\$3,232,093		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
4,806,390		Governmental funds report capital outlays as expenditures.	
130,451		However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
104,016		Fixed Assets Additions	5,848,681
165,528		Current Year Depreciation	(276,358)
3,310		Total	5,572,323
317,704		Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
8,759,492			(593)
3,635,158		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
1,247,448		Delinquent Property Taxes	39,389
73,116		Intergovernmental	22,632
1,200		Total	62,021
287,260		Repayment of school improvement bonds, energy loans and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
690,739		School Improvement Bonds	85,000
48,969		Energy Conservation Bonds	20,000
669,488		Capital Leases	7,439
245,712		Total	112,439
41,689		Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
534,892		Compensated Absences	42,816
488,558		Pension Obligations	13,820
16,037		Total	56,636
422,001		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.	
6,265,272		Bond Issuance Costs	(3,540)
112,439		Bond Premium	3,746
409,775		Accrued Interest	626
15,189,753		Total	832
(6,430,261)		The internal service fund used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures.	
(55,000)			(259,623)
(6,485,261)		<i>Change in Net Assets of Governmental Activities</i>	
10,201,711			(\$941,226)
\$3,716,450			

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$2,902,930	\$3,126,342	\$3,126,342	\$0
Intergovernmental	4,163,978	4,303,734	4,305,291	1,557
Interest	85,216	85,139	62,677	(22,462)
Tuition and Fees	70,956	77,400	77,284	(116)
Rentals	4,317	4,313	3,310	(1,003)
Miscellaneous	86,901	86,793	312,824	226,031
<i>Total Revenues</i>	<u>7,314,298</u>	<u>7,683,721</u>	<u>7,887,728</u>	<u>204,007</u>
Expenditures				
Current:				
Instruction:				
Regular	4,003,665	4,072,879	3,565,003	507,876
Special	1,218,262	1,187,074	946,302	240,772
Vocational	74,269	78,429	73,721	4,708
Other	107,454	130,308	80,128	50,180
Support Services:				
Pupil	308,829	324,097	279,528	44,569
Instructional Staff	666,024	853,906	616,029	237,877
Board of Education	94,979	101,845	50,779	51,066
Administration	720,415	715,295	661,325	53,970
Fiscal	229,525	252,805	232,429	20,376
Business	61,733	63,080	50,745	12,335
Operation and Maintenance of Plant	582,032	620,761	545,348	75,413
Pupil Transportation	680,019	709,555	497,406	212,149
Operation of Non-Instructional Services	1,017	17,506	16,036	1,470
Extracurricular Activities	235,568	269,186	240,994	28,192
Debt Service:				
Principal Retirement	23,340	24,828	20,000	4,828
Interest and Fiscal Charges	6,688	6,688	6,688	0
<i>Total Expenditures</i>	<u>9,013,819</u>	<u>9,428,242</u>	<u>7,882,461</u>	<u>1,545,781</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,699,521)</u>	<u>(1,744,521)</u>	<u>5,267</u>	<u>1,749,788</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	500	500	0	(500)
Advances In	0	45,000	45,000	0
Advances Out	(200,000)	(200,000)	(165,000)	35,000
Transfers Out	(200,000)	(200,000)	(55,000)	145,000
<i>Total Other Financing Sources (Uses)</i>	<u>(399,500)</u>	<u>(354,500)</u>	<u>(175,000)</u>	<u>179,500</u>
<i>Net Change in Fund Balance</i>	<u>(2,099,021)</u>	<u>(2,099,021)</u>	<u>(169,733)</u>	<u>1,929,288</u>
<i>Fund Balance Beginning of Year</i>	1,791,118	1,791,118	1,791,118	0
Prior Year Encumbrances Appropriated	307,903	307,903	307,903	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$1,929,288</u>	<u>\$1,929,288</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2003

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$58,084	\$0
Cash and Cash Equivalents		
With Fiscal Agents	0	19,909
Inventory Held for Resale	3,319	0
<i>Total Current Assets</i>	61,403	19,909
Capital Assets, Net	43,546	0
<i>Total Assets</i>	104,949	19,909
Liabilities		
Accounts Payable	52	0
Accrued Wages	19,533	0
Intergovernmental Payable	18,694	0
Compensated Absences Payable	2,722	0
Deferred Revenue	388	0
Claims Payable	0	340,926
<i>Total Current Liabilities</i>	41,389	340,926
Long-Term Liabilities:		
Interfund Payable	0	120,000
Compensated Absences Payable (net of current portion)	15,971	0
<i>Total Long-Term Liabilities</i>	15,971	120,000
<i>Total Liabilities</i>	57,360	460,926
Net Assets		
Invested in Capital Assets	43,546	0
Unrestricted (Deficit)	4,043	(441,017)
<i>Total Net Assets</i>	\$47,589	(\$441,017)

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003*

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Operating Revenues		
Sales	\$221,961	\$0
Charges for Services	0	957,608
<i>Total Operating Revenues</i>	<u>221,961</u>	<u>957,608</u>
Operating Expenses		
Salaries	143,398	0
Fringe Benefits	83,649	0
Purchased Services	488	93,484
Materials and Supplies	39,831	0
Cost of Sales	108,019	0
Depreciation	4,098	0
Claims	0	1,123,747
Other	523	0
<i>Total Operating Expenses</i>	<u>380,006</u>	<u>1,217,231</u>
<i>Operating Loss</i>	<u>(158,045)</u>	<u>(259,623)</u>
Non-Operating Revenues		
Donated Commodities	13,681	0
Operating Grants	68,513	0
<i>Total Non-Operating Revenues</i>	<u>82,194</u>	<u>0</u>
<i>Loss Before transfers</i>	(75,851)	(259,623)
Transfers In	55,000	0
<i>Change in Net Assets</i>	(20,851)	(259,623)
<i>Net Assets (Deficit) Beginning of Year - Restated (Note 3)</i>	<u>68,440</u>	<u>(181,394)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$47,589</u></u>	<u><u>(\$441,017)</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Customers	\$221,961	\$0
Cash Received from Transactions With Other Funds	0	958,431
Other Cash Receipts	1,655	0
Cash Payments to Employees for Services	(142,870)	0
Cash Payments for Employee Benefits	(80,230)	0
Cash Payments for Goods and Services	(135,612)	(93,484)
Cash Payments for Claims	0	(1,042,045)
Other Cash Payments	(523)	0
	<u> </u>	<u> </u>
<i>Net Cash Used in Operating Activities</i>	<u>(135,619)</u>	<u>(177,098)</u>
Cash Flows from Noncapital Financing Activities		
Operating Grants Received	75,263	0
Advances In	0	120,000
Transfers In	55,000	0
	<u> </u>	<u> </u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>130,263</u>	<u>120,000</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(5,356)	(57,098)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>63,440</u>	<u>77,007</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$58,084</u></u>	<u><u>\$19,909</u></u>

(continued)

Fredericktown Local School District

Statement of Cash Flows

Proprietary Funds (continued)

For the Fiscal Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	(\$158,045)	(\$259,623)
Adjustments:		
Depreciation	4,098	0
Donated Commodities Received During the Year	13,681	0
(Increase) Decrease in Assets:		
Accounts Receivable	0	823
Intergovernmental Receivable	1,655	0
Inventory Held for Resale	848	0
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,803)	0
Accrued Wages	528	0
Compensated Absences Payable	1,005	0
Intergovernmental Payable	2,414	0
Claims Payable	0	81,702
<i>Net Cash Used in Operating Activities</i>	<u>(\$135,619)</u>	<u>(\$177,098)</u>

Non-Cash Noncapital Activities

Federal donated commodities in the amount of \$13,681 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2003

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$29,126</u>
Liabilities	
Due to Students	<u>\$29,126</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 1 - Description of the School District

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 52 classified employees and 88 certificated employees who provide services to 1,161 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool. These organizations are presented in Note 15 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for two business-type activities of the School 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental activity is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. The fiduciary fund is reported by type.

B. Fund Accounting

The School 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.

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 School District's major governmental funds:

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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

Bond Retirement Fund The debt service fund is used to account for property taxes and intergovernmental revenues, and the payment of, general long-term debt principal, interest and related costs.

Building Capital Projects Fund The building capital projects fund accounts for bond proceeds used for the acquisition and construction of classroom facilities.

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has two enterprise funds; food services which accounts for the sale of food to students and others, and uniform school supplies which accounts for the sale of school supplies to students.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical benefits.

Fiduciary Fund Type 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency funds. The School District's agency fund accounts for student managed activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

(i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

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

E. Cash and Cash Equivalents

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

Throughout fiscal year 2003, the School District invested in Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, and Federal Agriculture Mortgage Bank Notes. However, these investments were no longer retained at year-end. The School District also had investments which were retained through year-end which were limited to STAROhio, the State Treasurer's Investment Pool, certificate of deposits, Federal Home Loan Mortgage Corporation Notes, First American Treasury Obligations, and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$62,677 which includes no amount assigned from other School District funds.

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

The School District participates in the OME-RESA insurance consortium for self-insurance. These monies are reflected on statement of net assets as "cash and cash equivalents with fiscal agent." The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium. The School District also uses a fiscal agent to hold retainage on construction contracts. The balances in these accounts are also presented as "cash and cash equivalents with fiscal agent."

F. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated food, purchased food and school supplies held for resale and materials and supplies held for consumption.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Deferred Charges

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond issuance costs are reported as an expenditure on the governmental fund financial statements when incurred.

I. Bond Premium

On government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund financial statements, bond premiums are reported as another financing source in the fiscal year received.

J. Capital Assets

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

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

All reported capital assets except land and construction in progress 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	5 - 50 years	N/A
Buildings and Improvements	8 - 50 years	50 years
Furniture and Equipment	5 - 20 years	6 - 20 years
Vehicles	7 - 10 years	N/A

Fredericktown Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables.” Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 11 years of current service with the School District.

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account “matured compensated absences payable” in the funds from which the employees will be paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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 normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

N. 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets for other purposes include providing early childhood education programs and reducing class-sizes.

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

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that is the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts 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 represent the final appropriation amounts passed during the year, including all supplemental appropriations.

Note 3 – Restatement of Fund Balances/Net Assets

At June 30, 2002, net assets for governmental and business-type activities were restated due to adjustments to capital assets. Also, fund balance and retained earnings for the general fund and self insurance internal service fund were restated due a decision by the Board of Education in fiscal year 2003 to make a transfer which was reported in fiscal year 2002 as an advance. The restatements had the following effect on net assets and fund balance at June 30, 2002:

A. Restatement of Net Assets

	<u>Governmental</u>	<u>Business-Type</u>
Net Assets, June 30, 2002	\$5,648,419	\$86,484
Restatements:		
Capital Assets	<u>(1,071,693)</u>	<u>(18,044)</u>
Restated Net Assets, June 30, 2002	<u><u>\$4,576,726</u></u>	<u><u>\$68,440</u></u>

This restatement affected the governmental activities change in net assets by \$270,032 for fiscal year 2002 decreasing it from \$29,236 to (\$240,796). The business-type funds had no effect to change in net assets from this restatement.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

B. Restatement of Fund Balance/Retained Earnings

	General Fund	Self-Insurance Fund
	<u> </u>	<u> </u>
Fund Balance/Net Assets, June 30, 2002	\$2,585,541	(\$381,394)
Restatements:		
Interfund Receivable	(200,000)	0
Interfund Payable	0	200,000
Restated Fund Balance/Net Assets, June 30, 2002	<u><u>\$2,385,541</u></u>	<u><u>(\$181,394)</u></u>

This restatement affected the general fund's net change in fund balance by \$200,000 for fiscal year 2002 decreasing it from \$190,471 to (\$9,529). It also affected the self-insurance fund's change in net assets by \$200,000 for fiscal year 2002 increasing it from (\$544,613) to (\$344,613).

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$463,789)
Net Adjustment for Revenue Accruals	543,920
Advances In	45,000
Net Adjustment for Expenditure Accruals	12,855
Advances Out	(165,000)
Adjustment for Encumbrances	<u>(142,719)</u>
Budget Basis	<u><u>(\$169,733)</u></u>

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At June 30, 2003, the School District's self-insurance internal service fund had a carrying amount of \$19,909 and a bank balance of (\$107,151) with OME-RESA, a claims servicing pool (See Note 9). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

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

Cash on Hand The School District had \$1,510 cash on hand at June 30, 2003.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$534,259 and the bank balance was \$1,140,467. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance; and
2. \$940,467 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio which is not classified by degree of risk since they are not evidenced by securities that exist in physical or book entry form.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$1,339,169	\$1,339,169	\$1,339,169
Federal Home Loan Mortgage Corporation Notes	1,367,893	1,367,893	1,367,893
First American Treasury Obligations	7,890	7,890	7,890
STAROhio	0	1,200,859	1,200,859
Total	\$2,714,952	\$3,915,811	\$3,915,811

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$3,394,572	\$1,375,783
Cash On Hand	(1,510)	0
Cash Held By Fiscal Agent	(19,909)	0
Contract Retainage	(298,866)	
Investments that are part of Cash and Investments:		
Repurchase Agreements	(1,339,169)	1,339,169
STAROhio	(1,200,859)	1,200,859
GASB Statement 3	\$534,259	\$3,915,811

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school 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 school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 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 School District prior to June 30.

The School District receives property taxes from Knox County and Morrow County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$424,766 in the general fund, \$95,013 in the bond retirement debt service fund, and \$39,123 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$966,527 in the general fund, \$198,969 in the bond retirement debt service fund, and \$93,003 in the permanent improvement capital projects fund.

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

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

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$88,653,630	81.78 %	\$98,306,410	81.52 %
Public Utility Personal	4,328,660	3.99	4,421,620	3.67
Tangible Personal Property	15,427,508	14.23	17,868,284	14.82
Total	<u>\$108,409,798</u>	<u>100.00 %</u>	<u>\$120,596,314</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$54.53		\$54.53	

Note 7 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. 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 fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

Fredericktown Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Title VI-R	\$22,632

Note 8 - Capital Assets

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

	<u>Balance 6/30/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2003</u>
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$408,500	\$0	\$0	\$408,500
Construction in Progress	1,391,558	5,742,351	0	7,133,909
<i>Total Non-Depreciable Assets</i>	<u>1,800,058</u>	<u>5,742,351</u>	<u>0</u>	<u>7,542,409</u>
<i>Depreciable Assets</i>				
Land Improvements	834,372	0	0	834,372
Building Improvements	2,292,538	0	0	2,292,538
Furniture and Equipment	1,259,042	27,985	(2,123)	1,284,904
Vehicles	650,535	78,345	0	728,880
<i>Total Depreciable Assets</i>	<u>5,036,487</u>	<u>106,330</u>	<u>(2,123)</u>	<u>5,140,694</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(753,466)	(20,332)	0	(773,798)
Building and Improvements	(1,820,269)	(43,985)	0	(1,864,254)
Furniture and Equipment	(698,553)	(156,404)	1,530	(853,427)
Vehicles	(319,756)	(55,637)	0	(375,393)
<i>Total Accumulated Depreciation</i>	<u>(3,592,044)</u>	<u>(276,358) *</u>	<u>1,530</u>	<u>(3,866,872)</u>
<i>Depreciable Capital Assets, Net</i>	<u>1,444,443</u>	<u>(170,028)</u>	<u>(593)</u>	<u>1,273,822</u>
Governmental Activities Capital Assets, Net	<u>\$3,244,501</u>	<u>\$5,572,323</u>	<u>(\$593)</u>	<u>\$8,816,231</u>
Business-Type Activities				
Buildings and Improvements	\$41,150	\$0	\$0	\$41,150
Furniture and Equipment	113,598	0	0	113,598
<i>Totals at Historical Cost</i>	<u>154,748</u>	<u>0</u>	<u>0</u>	<u>154,748</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(32,038)	(3,492)	0	(35,530)
Furniture and Equipment	(75,066)	(606)	0	(75,672)
<i>Total Accumulated Depreciation</i>	<u>(107,104)</u>	<u>(4,098)</u>	<u>0</u>	<u>(111,202)</u>
Business-Type Activities Capital Assets, Net	<u>\$47,644</u>	<u>(\$4,098)</u>	<u>\$0</u>	<u>\$43,546</u>

Fredericktown Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$146,093
Special	4,122
Vocational	4,983
Support Services:	
Pupil	2,512
Instructional Staff	9,070
Administration	33,747
Fiscal	1,863
Operation and Maintenance of Plant	11,266
Pupil Transportation	56,541
Operation of Non-Instructional Services	821
Extracurricular Activities	5,340
Total Depreciation Expense	<u>\$276,358</u>

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the School District contracted with Selective Insurance for buildings and contents, liability insurance and fleet insurance.

<u>Type of Coverage</u>	<u>Coverage Amount</u>
Property (Replacement Cost)	\$14,289,594
General Liability, in aggregate	4,000,000
General Liability, per occurrence	2,000,000
Fleet Insurance, single limit	2,000,000
Fleet Insurance, uninsured	1,000,000
Auto Medical Payments	5,000

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

B. Workers' Compensation

The School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

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 & Company provides administrative, cost control and actuarial services to the GRP.

C. Self-Insurance

The School District offers medical and surgical insurance to all employees, and dental insurance is offered to all certified employees through a self-insurance internal service fund. The School District is self insured with Self-Fund Plans, Incorporated, serving as the third party administrator. The claims liability of \$340,926 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2002 and 2003 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2002	\$125,406	\$1,328,826	\$1,195,008	\$259,224
2003	259,224	1,123,747	1,042,045	340,926

Note 10 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators 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 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all personnel. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to contracted employees through Self-Funded Plans, Incorporated. The Board pays the cost of the monthly premium, \$2.70 per employee.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

Note 11 - Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School 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. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$97,539, \$63,584 and \$43,397 respectively; 39.33 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$508,282, \$361,361, and \$338,936 respectively; 85.34 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$3,779 made by the School District and \$9,585 made by the plan members.

C. Social Security System

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

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$39,099 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$91,135.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003, were as follows:

	Principal Outstanding 6/30/2002	Additions	Reductions	Principal Outstanding 6/30/2003	Amounts Due in One Year
Governmental Activities					
2001 School Improvement Bonds	\$7,845,000	\$0	\$85,000	\$7,760,000	\$115,000
Unamortized Premium	99,264	0	3,746	95,518	3,746
1997 Energy Conservation Bonds	135,000	0	20,000	115,000	20,000
Capital Leases	15,493	0	7,439	8,054	8,054
Compensated Absences	659,843	53,270	96,086	617,027	153,596
Total Governmental Activities					
Long-Term Liabilities	<u>\$8,754,600</u>	<u>\$53,270</u>	<u>\$212,271</u>	<u>\$8,595,599</u>	<u>\$300,396</u>
Business-Type Activities					
Compensated Absences	<u>\$17,688</u>	<u>\$1,019</u>	<u>\$14</u>	<u>\$18,693</u>	<u>\$2,722</u>

On April 19, 2001, Fredericktown Local School District issued \$7,900,000 in voted general obligation bonds for the purpose of high school and elementary school additions. \$300,000 of the proceeds have yet to be spent. The bonds were issued at a 3.80 to 5.90 percent interest rate for a twenty-nine year period with final maturity at June 1, 2029. These bonds were issued at a premium of \$104,878.

On September 15, 1997, Fredericktown Local School District issued \$203,515 in energy conservation bonds. The bonds were issued at a 5.35 percent interest rate for a ten-year period with final maturity at June 1, 2008.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

All general obligation bonds will be paid from property taxes.

Compensated absences will be paid from the general fund and from the food service fund. The capital lease will be paid from the permanent improvement capital projects fund.

The School District's overall debt margin was \$3,427,816 with an unvoted debt margin of \$120,596 at June 30, 2003. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
2004	\$115,000	\$398,005	\$20,000	\$5,618
2005	125,000	393,445	20,000	4,548
2006	140,000	388,270	25,000	3,344
2007	175,000	381,839	25,000	2,006
2008	185,000	374,276	25,000	669
2009-2013	1,050,000	1,738,275	0	0
2014-2018	1,355,000	1,409,703	0	0
2019-2023	1,785,000	973,170	0	0
2024-2028	2,295,000	449,150	0	0
2029	535,000	13,910	0	0
Totals	<u>\$7,760,000</u>	<u>\$6,520,043</u>	<u>\$115,000</u>	<u>\$16,185</u>

Note 14 - Capitalized Leases - Lessee Disclosure

In prior fiscal years, the School District entered into a capitalized lease for modular classrooms. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 general purpose financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been originally capitalized in the amount of \$37,429. Accumulated depreciation as of June 30, 2003 was \$4,159 leaving a current book value of \$33,270.

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

Fiscal Year Ending June 30,	
Total 2004 Minimum Lease Payments	\$8,721
Less: Amount representing interest	(667)
Present value of minimum lease payments	<u>\$8,054</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 15 - Jointly Governed Organization and Public Entity Risk Pool

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. 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 districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$23,804 to TRECA during fiscal year 2003 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Insurance Purchasing Pool

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

Note 16 - Contingencies

A. Grants

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

B. Litigation

The School District is not a party to any legal proceedings.

Note 17 - Set-Asides

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 year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

	Textbooks/ Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balances as of June 30, 2002	\$0	\$0
Current Year Set-aside Requirement	149,053	149,053
Qualifying Disbursements	<u>(262,613)</u>	<u>(278,081)</u>
Total	<u>(\$113,560)</u>	<u>(\$129,028)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$113,560)</u>	<u>\$0</u>

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

Note 18 - State School Funding Decision

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

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

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

Note 19 – Contractual Commitments

As of June 30, 2003, the School District had the following contractual commitments outstanding relating to construction of the K-8 School:

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

<u>Project</u>	<u>Amount Remaining on Contract</u>
Ben Imhoff, Incorporated	\$981,182
Rhodes Heating and Air	35,630
Gutridge	10,380
Standard Plumbing	129,816
Kahl's Electric	107,433
Consortium Communications	55,092
C&T Design and Equipment	29,224
Service Supply	16,000
Total	<u><u>\$1,364,757</u></u>

Note 20 – Interfund Advances and Transfers

Advances made from the general fund to the self-insurance internal services fund were in the amount of \$120,000. These advances were made to prevent a deficit in cash in the self-insurance internal service fund and it is still outstanding at June 30, 2003.

A transfer of \$55,000 was made during fiscal year 2003 from the general fund to the food service enterprise fund. This transfer was made to move unrestricted balances to support the program.

Note 21 – Compliance

A. Net Asset Deficit

The internal service governmental fund had a deficit balance of net assets of \$441,017 at June 30, 2003. However, the School District's premiums are increasing by 32 percent for fiscal year 2004 to address this deficit balance.

B. Accountability

The following funds had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code Section 5705.41(B):

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
Governmental Funds:			
OneNet Fund	\$16,000	\$16,500	\$500
Miscellaneous Federal Grants Fund	18,514	25,233	6,719

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**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department Of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster: School Breakfast Program	05-PU-2003	10.553	\$2,960	\$0	\$2,960	\$0
National School Lunch Program	LL-P4-2003	10.555	68,443	0	68,443	0
Special Milk Program	02-PU-2003	10.556	1,431	0	1,431	0
Food Distribution	N/A	10.550	0	14,069	0	14,069
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>72,834</u>	<u>14,069</u>	<u>72,834</u>	<u>14,069</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-2002 C1-S1-2003	84.010	25,872 <u>148,762</u>	0 0	52,332 <u>124,731</u>	0 0
Total Title I Grants to Local Educational Agencies			<u>174,634</u>	<u>0</u>	<u>177,063</u>	<u>0</u>
Innovative Education Program Strategies	C2-S1-2002 C2-S1-2003	84.298	0 <u>6,225</u>	0 0	176 <u>6,225</u>	0 0
Total Innovative Education Program Strategies			<u>6,225</u>	<u>0</u>	<u>6,401</u>	<u>0</u>
Special Education Grants to States	6B-SF-2002 P 6B-SF-2003 P	84.027	13,211 <u>145,279</u>	0 0	20,299 <u>119,203</u>	0 0
Total Special Education Grants to States			<u>158,490</u>	<u>0</u>	<u>139,502</u>	<u>0</u>
Eisenhower Proficiency Development Grant	MS-S1-2002	84.281	<u>57</u>	<u>0</u>	<u>57</u>	<u>0</u>
Drug Free Schools Grant	DR-S1-2001 DR-S1-2002 DR-S1-2002	84.186	0 836 <u>6,109</u>	0 0	6 <u>1,264</u> <u>5,526</u>	0 0
Total Drug Free Schools Grant			<u>6,945</u>	<u>0</u>	<u>6,796</u>	<u>0</u>
Classroom Reduction	CR-S1-2002	84.340	<u>(5,372)</u>	<u>0</u>	<u>11,193</u>	<u>0</u>
Title II-A Improving Teacher Quality	TR-S1-2003	84.367	<u>54,655</u>	<u>0</u>	<u>25,826</u>	<u>0</u>
Title II-D Education Technology State Grant	TJ-SI-2003	84.318	<u>4,073</u>	<u>0</u>	<u>3,900</u>	<u>0</u>
Assistive Technology	N/A	84.352A	<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Goals 2000	G2S9-2001	84.276	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Total U.S. Department of Education			<u>409,707</u>	<u>0</u>	<u>390,738</u>	<u>0</u>
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program (CAFS)		93.778	<u>24,230</u>	<u>0</u>	<u>24,230</u>	<u>0</u>
Total Federal Awards			<u>\$506,771</u>	<u>\$14,069</u>	<u>\$487,802</u>	<u>\$14,069</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and 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—CHILD NUTRITION CLUSTER

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—DISCONTINUED FEDERAL PROGRAM

The Classroom Reduction Grant, CFDA #84.340, was eliminated due to the restructuring of the U.S. Department of Education's federal funding. As a result, the Ohio Department of Education transferred \$5,372 of the Classroom Reduction Grant received in fiscal year 2002 which was not liquidated at the end of the grant period to the Title II-D Improving Teacher Quality Grant, CFDA #84.367. This transfer is reflected on the Schedule.



Auditor of State Betty Montgomery

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

Board of Education
Fredericktown Local School District
Knox County
134 West Second Street
Fredericktown, Ohio 43019

We have audited the financial statements of Fredericktown Local School District, Knox County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 4, 2003. 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated December 4, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 4, 2003.

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This report is intended for the information and use of the audit committee, management, Board of Education, and 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.

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

Betty Montgomery
Auditor of State

December 4, 2003



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

Board of Education
Fredericktown Local School District
Knox County
134 West Second Street
Fredericktown, Ohio 43019

Compliance

We have audited the compliance of Fredericktown Local School District, Knox County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is 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 its major federal program 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 its major federal program for the year ended June 30, 2003.

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.

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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, the Board of Education, and 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.

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

Betty Montgomery
Auditor of State

December 4, 2003

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
FISCAL YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10642-001	Ohio Rev. Code Section 5705.41(B) — Budgetary Expenditures exceeded appropriations	No	Partially Corrected- Management Letter Comment



**Auditor of State
Betty Montgomery**

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FREDERICKTOWN LOCAL SCHOOL DISTRICT

KNOX 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
JANUARY 27, 2004**