



**Auditor of State
Betty Montgomery**

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fremont City School District
Sandusky County
1220 Cedar Street, Suite A
Fremont, Ohio 43420-1156

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School District, Sandusky County, (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School District, Sandusky County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The School District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 25.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should be read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

April 19, 2005

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

The discussion and analysis of Fremont City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$2,760,782, or 34 percent. This is a significant change from the prior fiscal year. Although there was an increase in capital assets and restricted assets the unrestricted assets decreased \$3,356,442. The special instruction program in particular had a sizable increase in expenses of 46 percent.
- General revenues represented 80 percent of all revenues for fiscal year 2004. The dependence on general revenues was slightly less than that of the prior fiscal year; however, the dependence on income and property taxes as well as unrestricted state entitlements continues to be significant.
- The School District continued to receive parity aid as part of the State foundation program in fiscal year 2004. Parity aid is distributed to low wealth school districts based on the valuation of real and personal property within their boundaries. In previous fiscal years, the use of this aid was restricted to funding additional programs, but in fiscal year 2003, these restrictions were lifted. The main component of the State foundation allocation is based on the three-year average daily membership (ADM) of students enrolled during the first week of October. For the past several years, the three-year average ADM has been declining. With the changes in State law approved as part of House Bill 95, the State funding of schools is no longer based on the three-year average ADM, but solely on the actual ADM. This had a significant impact on our funding in fiscal year 2004.
- As part of the School District's fiscal watch recovery plan, the Board of Education placed an additional five-year, .5 percent income tax levy on the ballot in May 2003 (for calendar year 2004 earnings). The revenue to be generated from this addition is \$2,380,000 annually. The levy was successful and brought the full income tax rate for the School District to 1.25 percent. Due to the eighteen month timeline to realize full collection of the additional tax, the School District had to issue tax anticipation notes in January 2004, in the amount \$1,100,000, to alleviate cash flow issues. Collections from the additional income tax began in April 2004.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Fremont City School District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Fremont City School District, the General Fund is the most significant fund.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These 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 whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the General Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of the funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1
Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Assets:		
Current and Other Assets	\$ 16,562,139	\$ 16,011,449
Capital Assets, Net	12,187,961	11,778,039
<i>Total Assets</i>	<u>28,750,100</u>	<u>27,789,488</u>
Liabilities:		
Current and Other Liabilities	18,578,186	14,061,275
Long-Term Liabilities	4,900,363	5,695,880
<i>Total Liabilities</i>	<u>23,478,549</u>	<u>19,757,155</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	11,280,889	10,714,749
Restricted	2,432,039	2,402,519
Unrestricted (Deficit)	<u>(8,441,377)</u>	<u>(5,084,935)</u>
<i>Total Net Assets</i>	<u><u>\$ 5,271,551</u></u>	<u><u>\$ 8,032,333</u></u>

Total assets increased \$960,912, a little over 3 percent, and generally an insignificant change from the prior fiscal year. Several accounts worth noting are a 15 percent increase in cash and cash equivalents, which can be attributed to two primary factors. First, there was a decrease reflected in intergovernmental receivables resulting from the School District's focus on obtaining all grant resources within the fiscal year rather than leaving amounts outstanding at fiscal year end as had occurred in prior fiscal years. Second, was the increase in income tax resources received during the fiscal year resulting from the rate increase from .75 percent to 1.25 percent.

There was a fairly sizable jump in current and other liabilities in comparison to fiscal year 2003. Because of fewer resources in fiscal year 2003, the School District limited purchasing and as a result there were lower accounts payable at fiscal year end. The School District was able to restore some purchasing ability in fiscal year 2004; therefore, accounts payable at fiscal year end returned to a more normal level. There was an increase in matured compensated absences payable of over \$192,000. This was simply the result of a larger number of retirements in fiscal year 2004. The intergovernmental payable liability also increased by a rather large amount, approximately \$745,000. The School District owed the Sandusky County Education Service Center just over \$639,000 at the end of the fiscal year for services rendered. Lastly, the School District issued tax anticipation notes, in the amount of \$1,100,000 to alleviate cash flow difficulties within the fiscal year. These increases in the School District's liabilities are also reflected in the decrease in unrestricted net assets.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004 and 2003.

Table 2
Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues:		
Program Revenues		
Charges for Services	\$ 1,337,880	\$ 1,033,223
Operating Grants, Contributions, and Interest	5,413,461	5,504,465
Capital Grants and Contributions	111,825	143,956
<i>Total Program Revenues</i>	6,863,166	6,681,644
General Revenues		
Property Taxes Levied for General Purposes	9,759,373	13,273,753
Property Taxes Levied for Debt Service	129,927	152,805
Property Taxes Levied for Permanent Improvements	660,412	1,117,320
Income Taxes Levied for General Purposes	4,387,831	3,412,934
Payment in Lieu of Taxes	-	156,980
Grants and Entitlements	12,366,157	11,709,493
Interest	24,094	48,331
Rent	7,009	19,191
Miscellaneous	48,671	51,098
<i>Total General Revenues</i>	27,383,474	29,941,905
<i>Total Revenues</i>	34,246,640	36,623,549
Expenses:		
Instruction:		
Regular	16,434,146	16,620,477
Special	5,646,097	3,859,875
Vocational	181,007	130,471
Support Services:		
Pupils	2,369,102	2,090,044
Instructional Staff	1,714,539	1,614,623
Board of Education	66,604	69,138
Administration	2,475,073	2,461,093
Fiscal	790,337	961,032
Business	93,224	92,046
Operation and Maintenance of Plant	3,088,580	3,140,175
Pupil Transportation	1,091,367	1,647,015
Central	78,888	77,823

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 (Continued)
Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Non-Instructional Services	2,247,258	2,071,943
Extracurricular Activities	575,217	611,085
Intergovernmental	76,931	67,395
Interest and Fiscal Charges	79,052	52,314
<i>Total Expenses</i>	<i>37,009,426</i>	<i>35,568,552</i>
<i>Increase (Decrease) in Net Assets</i>	<i>\$ (2,762,786)</i>	<i>\$ 1,054,997</i>

Program revenues represented 20 percent of total revenues for fiscal year 2004 and were fairly comparable to the prior fiscal year. Program revenues generally represent tuition and fees, charges for extracurricular activities, and food service sales. The decrease in revenue to Property Taxes levied for general purposes and permanent improvements can be attributed to the reduction of the tax advance taken at fiscal year-end.

As stated previously, general revenues were 80 percent of total revenues for fiscal year 2004 and while general revenues were less than the previous fiscal year, dependence on tax resources and unrestricted grants and entitlements, primarily State foundation resources, will continue to be the primary support for School District operations.

In general, program expenses were very comparable to the prior fiscal year. The only program, which reflects a considerable change, is the costs associated with special instruction. The School District received more resources for special instruction in the fiscal year, thus expenses increased correspondingly.

The major program expenses for governmental activities are for instruction, which accounts for 60 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 14 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 8 percent. Therefore, approximately 82 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction:				
Regular	\$ 16,434,146	\$ 16,620,477	\$ 15,002,530	\$ 15,472,096
Special	5,646,097	3,859,875	2,966,948	1,638,261
Vocational	181,007	130,471	181,007	130,471
Support Services:				
Pupils	2,369,102	2,090,044	2,169,493	1,891,950
Instructional Staff	1,714,539	1,614,623	1,714,539	1,614,623
Board of Education	66,604	69,138	66,604	69,138
Administration	2,475,073	2,461,093	2,475,073	2,461,093
Fiscal	790,337	961,032	765,924	961,032
Business	93,224	92,046	93,224	92,046
Operation and Maintenance of Plant	3,088,580	3,140,175	3,088,580	3,140,175
Pupil Transportation	1,091,367	1,647,015	(27,637)	602,305
Central	78,888	77,823	78,888	77,823
Non-Instructional Services	2,247,258	2,071,943	109,052	179,327
Extracurricular Activities	575,217	611,085	376,492	450,440
Intergovernmental	76,931	67,395	65,339	(57,009)
Interest and Fiscal Charges	79,052	52,314	79,052	52,314
<i>Total Expenses</i>	\$ 37,007,422	\$ 35,566,549	\$ 29,205,108	\$ 28,776,085

As noted earlier, the program costs for fiscal year 2004 are very comparable to the prior fiscal year as are the net costs of services. The one exception is in the special instruction program, which had greater expenses, as there was a greater amount of resources to draw from for fiscal year 2004. Also note that 47 percent of special instruction costs are provided for through program revenues, primarily operating grants restricted for special instruction purposes.

Another program receiving significant program revenues is non-instructional services (over 95 percent program revenues). These revenues consist of cafeteria sales and state and federal subsidies for cafeteria operations as well as State monies received by the School District on behalf of the four parochial schools within the School District's boundaries.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major fund is the General Fund where expenditures exceeded revenues for the fiscal year. While expenditures remained fairly close to those of the prior fiscal year, revenues decreased and the School District has continued to deplete the cash balance within this fund. One further result of the dwindling cash balance, and an issue which has lingered since fiscal year 2001, is the statutorily required set aside for textbooks and instructional materials continues to exceed the fund's cash balance. The addition of income tax revenues should help alleviate these issues in future fiscal years.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

General Fund Budgeting Highlights

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

A review of the General Fund's budgetary activity reveals little change from original to final budget and from the final budget to actual amounts for both revenues and expenditures. The difficulty, as expressed in the above discussion, is that expenditures continue to exceed revenues. The district, in an attempt to get out of fiscal caution, reduced the amount of real estate tax advance at year-end. Doing this, the Property Taxes and Permanent Improvement revenue for fiscal year 2004 decreased. As discussed before in this report, there was a substantial increase in Special Education costs from the prior year. In addition to increased costs for Sandusky County ESC services, increased resources from Title VI-B Idea grant received for special instruction resulted in corresponding increased expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$12,187,961 invested in capital assets (net of accumulated depreciation), an increase of \$409,922, or a little over 3 percent. Due to limited resources, additions to capital assets were very restricted again in fiscal year 2004. For further information regarding the School District's capital assets, refer to Note 11 to the basic financial statements.

Debt

The School District's outstanding debt at June 30, 2004, consisted of tax anticipation notes, in the amount of \$1,100,000 and general obligation bonds, in the amount of \$740,000. The School District's long-term obligations also include compensated absences and capital leases. For further information regarding the School District's long-term obligations, refer to Note 18 to the basic financial statements.

Current Issues

The School District had projected a deficit cash position for fiscal year 2003 on the five-year forecast submitted to the Department of Education. As a result, the School District was placed in Fiscal Caution on April 10, 2003. As part of the School District's recovery plan, the Board of Education placed an additional five-year, .5 percent income tax levy on the ballot in May 2003. The revenue to be generated from this addition is \$2,380,000 annually. The levy was successful and brought the full income tax rate for the School District to 1.25 percent. Collections on the new tax began in April 2004.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Cheryl C. Burkin, Treasurer, Fremont City School District, 1220 Cedar Street, Suite A, Fremont, Ohio 43420-1156.

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**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 2,232,207
Cash and Cash Equivalents with Fiscal Agent	92,096
Investments	72,140
Accounts Receivable	62,432
Accrued Interest Receivable	4,800
Intergovernmental Receivable	30,547
Income Taxes Receivable	2,061,652
Due from External Parties	2,259
Prepaid Items	81,978
Inventory Held for Resale	11,041
Materials and Supplies Inventory	71,448
Property Taxes Receivable	11,815,875
Judgment Receivable	5,665
Notes Receivable	17,999
Nondepreciable Capital Assets	409,270
Depreciable Capital Assets, Net	11,778,691
<i>Total Assets</i>	28,750,100
Liabilities:	
Accounts Payable	316,075
Accrued Wages and Benefits Payable	3,028,208
Matured Compensated Absences Payable	212,265
Special Termination Benefits Payable	25,246
Intergovernmental Payable	1,688,292
Claims Payable	652,700
Accrued Interest Payable	28,308
Notes Payable	1,100,000
Deferred Revenue	11,527,092
Long-Term Liabilities:	
Due Within One Year	324,341
Due in More Than One Year	4,576,022
<i>Total Liabilities</i>	23,478,549
Net Assets:	
Invested in Capital Assets, Net of Related Debt	11,280,889
Restricted For:	
Set Asides	1,289,559
Capital Projects	595,776
Other Purposes	545,220
Betterment and Maintenance:	
Expendable	484
Nonexpendable	1,000
Unrestricted (Deficit)	(8,441,377)
<i>Total Net Assets</i>	\$ 5,271,551

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Revenue and Change in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 16,434,146	\$ 371,685	\$ 1,038,369	\$ 21,562	\$ (15,002,530)
Special	5,646,097	1,742	2,677,407	-	(2,966,948)
Vocational	181,007	-	-	-	(181,007)
Support Services:					
Pupils	2,369,102	46,776	93,254	59,579	(2,169,493)
Instructional Staff	1,714,539	-	-	-	(1,714,539)
Board of Education	66,604	-	-	-	(66,604)
Administration	2,475,073	-	-	-	(2,475,073)
Fiscal	790,337	24,413	-	-	(765,924)
Business	93,224	-	-	-	(93,224)
Operation and Maintenance of Plant	3,088,580	-	-	-	(3,088,580)
Pupil Transportation	1,091,367	44,818	104,354	30,684	(911,511)
Central	78,888	-	-	-	(78,888)
Non-Instructional Services	2,247,258	684,868	1,453,338	-	(109,052)
Extracurricular Activities	575,217	163,578	35,147	-	(376,492)
Intergovernmental	76,931	-	11,592	-	(65,339)
Interest and Fiscal Charges	79,052	-	-	-	(79,052)
Total Governmental Activities	\$ 37,007,422	\$ 1,337,880	\$ 5,413,461	\$ 111,825	(30,144,256)

General Revenues:

Property Taxes Levied for General Purposes	9,759,373
Property Taxes Levied for Debt Service	129,927
Property Taxes Levied for Permanent Improvements	660,412
Income Taxes Levied for General Purposes	4,387,831
Grants and Entitlements not Restricted to Specific Programs	12,366,157
Interest	24,094
Rent	7,009
Miscellaneous	48,671
Total General Revenues	27,383,474
Change in Net Assets	(2,760,782)
Net Assets at Beginning of Year - Restated (Note 3)	8,032,333
Net Assets at End of Year	\$ 5,271,551

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Other Governmental	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 1,675,890	\$ 1,675,890
Cash and Cash Equivalents with Fiscal Agent	92,096	-	92,096
Investments	-	72,140	72,140
Accounts Receivable	18,780	43,652	62,432
Accrued Interest Receivable	4,386	414	4,800
Intergovernmental Receivable	1,841	28,706	30,547
Income Taxes Receivable	2,061,652	-	2,061,652
Interfund Receivable	4,348	6,559	10,907
Due from External Parties	2,259	-	2,259
Prepaid Items	26,730	2,860	29,590
Inventory Held for Resale	-	11,041	11,041
Materials and Supplies Inventory	69,003	2,445	71,448
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	256,806	-	256,806
Property Taxes Receivable	10,827,437	988,438	11,815,875
Judgment Receivable	-	5,665	5,665
Notes Receivable	-	17,999	17,999
Total Assets	\$ 13,365,338	\$ 2,855,809	\$ 16,221,147
Liabilities			
Accounts Payable	\$ 55,420	\$ 260,655	\$ 316,075
Accrued Wages and Benefits Payable	2,774,435	253,773	3,028,208
Matured Compensated Absences Payable	208,942	3,323	212,265
Intergovernmental Payable	1,324,249	47,849	1,372,098
Interfund Payable	6,471	4,436	10,907
Accrued Interest Payable	24,670	-	24,670
Notes Payable	1,100,000	-	1,100,000
Deferred Revenue	11,229,327	1,029,272	12,258,599
Total Liabilities	16,723,514	1,599,308	18,322,822
Fund Balances:			
Reserved for Textbooks	1,289,559	-	1,289,559
Reserved for Notes Receivable	-	14,999	14,999
Reserved for Unclaimed Monies	14,824	-	14,824
Reserved for Betterment and Maintenance	-	1,000	1,000
Reserved for Encumbrances	23,627	421,331	444,958
Unreserved, Reported in:			
General Fund (Deficit)	(4,686,186)	-	(4,686,186)
Special Revenue Funds	-	513,490	513,490
Capital Projects Funds	-	305,197	305,197
Permanent Fund	-	484	484
Total Fund Balances (Deficit)	(3,358,176)	1,256,501	(2,101,675)
Total Liabilities and Fund Balances	\$ 13,365,338	\$ 2,855,809	\$ 16,221,147

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ (2,101,675)
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		12,187,961
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Accounts Receivable	22,695	
Accrued Interest Receivable	38	
Intergovernmental Receivable	-	
Income Taxes Receivable	390,562	
Property Taxes Receivable	318,212	
		731,507
<p>Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.</p>		(316,194)
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Special Termination Benefits Payable	(25,246)	
Accrued Interest Payable	(3,638)	
General Obligation Bonds Payable	(740,000)	
Compensated Absences Payable	(3,993,291)	
Capital Leases Payable	(167,072)	
		(4,929,247)
<p>An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.</p>		(300,801)
<i>Net Assets of Governmental Activities</i>		\$ 5,271,551

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General	Other Governmental	Total Governmental Funds
Revenues:			
Property Taxes	\$ 9,807,620	\$ 806,137	\$ 10,613,757
Income Taxes	4,223,425	-	4,223,425
Payment in Lieu of Taxes	-	12,539	12,539
Intergovernmental	13,190,361	4,942,511	18,132,872
Interest	19,708	2,857	22,565
Tuition and Fees	281,286	105,332	386,618
Extracurricular Activities	-	236,397	236,397
Charges for Services	5,676	646,270	651,946
Rent	8,847	-	8,847
Gifts and Donations	-	7,299	7,299
Miscellaneous	199,924	91,104	291,028
<i>Total Revenues</i>	27,736,847	6,850,446	34,587,293
Expenditures:			
Current:			
Instruction:			
Regular	15,742,264	738,026	16,480,290
Special	4,057,721	1,582,991	5,640,712
Vocational	157,563	20,160	177,723
Support Services:			
Pupils	1,958,690	323,394	2,282,084
Instructional Staff	1,023,335	698,491	1,721,826
Board of Education	67,932	-	67,932
Administration	2,377,514	97,005	2,474,519
Fiscal	741,935	52,998	794,933
Business	92,547	-	92,547
Operation and Maintenance of Plant	2,715,911	167,617	2,883,528
Pupil Transportation	1,493,794	42,708	1,536,502
Central	52,551	26,673	79,224
Non-Instructional Services	9,322	2,253,127	2,262,449
Extracurricular Activities	488,910	178,282	667,192
Capital Outlay	-	535,695	535,695
Intergovernmental	-	76,931	76,931
Debt Service:			
Principal Retirement	51,218	105,000	156,218
Interest and Fiscal Charges	32,812	46,757	79,569
<i>Total Expenditures</i>	31,064,019	6,945,855	38,009,874
<i>Excess of Expenditures Over Revenues</i>	(3,327,172)	(95,409)	(3,422,581)
Other Financing Sources (Uses):			
Transfers In	-	94,575	94,575
Transfers Out	(8,757)	(85,818)	(94,575)
<i>Total Other Financing Sources (Uses)</i>	(8,757)	8,757	-
<i>Changes in Fund Balances</i>	(3,335,929)	(86,652)	(3,422,581)
Fund Balances (Deficit) at Beginning of Year	(22,247)	1,343,153	1,320,906
<i>Fund Balances (Deficit) at End of Year</i>	\$ (3,358,176)	\$ 1,256,501	\$ (2,101,675)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Changes in Fund Balances - Total Governmental Funds \$ (3,422,581)

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

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

Capital Outlay	461,098	
Depreciation	(12,813)	
	448,285	448,285

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (38,363)

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

Property Taxes	(64,045)	
Income Taxes	164,406	
Payment in Lieu of Taxes	(12,539)	
Intergovernmental	(376,937)	
Interest	4,386	
Tuition and Fees	(291)	
Extracurricular Activities	387	
Charges for Services	(33)	
Rent	(1,838)	
Miscellaneous	2,735	
	(283,769)	(283,769)

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 156,218

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net assets. 517

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(33,304)	
Special Termination Benefits Payable	29,803	
Compensated Absences Payable	639,299	
	635,798	635,798

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. (256,887)

Change in Net Assets of Governmental Activities **\$ (2,760,782)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues:				
Property Taxes	\$ 11,936,058	\$ 12,012,300	\$ 11,467,202	\$ (545,098)
Income Taxes	3,635,597	3,700,000	3,642,022	(57,978)
Intergovernmental	12,557,644	12,915,297	13,047,520	132,223
Interest	34,391	35,000	24,241	(10,759)
Tuition and Fees	234,643	238,800	281,286	42,486
Rent	17,688	18,000	7,659	(10,341)
Miscellaneous	182,108	185,334	190,375	5,041
<i>Total Revenues</i>	28,598,129	29,104,731	28,660,305	(444,426)
Expenditures:				
Current:				
Instruction:				
Regular	15,460,126	14,572,409	14,438,058	134,351
Special	3,797,241	3,454,017	3,420,720	33,297
Vocational	160,786	162,630	156,113	6,517
Other	1,026,940	1,051,327	1,051,327	-
Support Services:				
Pupils	1,838,106	1,828,628	1,790,198	38,430
Instructional Staff	966,066	1,038,614	1,000,780	37,834
Board of Education	57,325	81,062	73,182	7,880
Administration	2,518,303	2,475,333	2,420,699	54,634
Fiscal	759,718	766,720	734,096	32,624
Business	99,705	94,503	90,987	3,516
Operation and Maintenance of Plant	2,830,669	2,772,618	2,659,823	112,795
Pupil Transportation	1,292,000	1,544,341	1,472,743	71,598
Central	58,896	59,030	54,346	4,684
Non-Instructional Services	6,460	10,234	9,361	873
Extracurricular Activities	465,325	549,674	483,986	65,688
<i>Total Expenditures</i>	31,337,666	30,461,140	29,856,419	604,721
<i>Excess of Expenditures Over Revenues</i>	(2,739,537)	(1,356,409)	(1,196,114)	160,295
Other Financing Sources (Uses):				
Tax Anticipation Notes Issued	1,080,853	1,100,000	1,100,000	-
Refund of Prior Year Expenditures	3,356	3,415	3,421	6
Refund of Prior Year Receipts	-	(659)	(659)	-
Advances In	77,821	79,200	77,575	(1,625)
Transfers In	-	-	5,676	5,676
Transfers Out	-	(8,757)	(8,757)	-
<i>Total Other Financing Sources (Uses)</i>	1,162,030	1,173,199	1,177,256	4,057
<i>Change in Fund Balance</i>	(1,577,507)	(183,210)	(18,858)	164,352
Fund Balance at Beginning of Year	204,505	204,505	204,505	-
Prior Year Encumbrances Appropriated	31,178	31,178	31,178	-
<i>Fund Balance at End of Year</i>	\$ (1,341,824)	\$ 52,473	\$ 216,825	\$ 164,352

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Fund Net Assets
Proprietary Fund
June 30, 2004**

	<u>Governmental Activity Internal Service Fund</u>
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 299,511
Prepaid Items	<u>52,388</u>
<i>Total Current Assets</i>	351,899
Current Liabilities:	
Claims Payable	<u>652,700</u>
Net Assets:	
Unrestricted (Deficit)	<u><u>\$ (300,801)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Operating Revenues:	
Charges for Services	\$ 3,777,912
Operating Expenses:	
Purchased Services	626,534
Claims	3,408,265
<i>Total Operating Expenses</i>	<u>4,034,799</u>
Operating Loss	(256,887)
Net Assets (Deficit) at Beginning of Year	<u>(43,914)</u>
<i>Net Assets (Deficit) at End of Year</i>	<u><u>\$ (300,801)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Increase (Decrease) in Cash and Cash Equivalents	
<u>Cash Flow from Operating Activities:</u>	
Cash Received from Transactions with Other Funds	\$ 3,777,912
Cash Payments for Goods and Services	(627,143)
Cash Payments for Claims	<u>(3,290,265)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(139,496)
Cash and Cash Equivalents at Beginning of Year	<u>439,007</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 299,511</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (256,887)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>	
Increase in Prepaid Items	(609)
Increase in Claims Payable	<u>118,000</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (139,496)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 4,332	\$ 92,446
Investments	37,000	-
Accrued Interest Receivable	128	-
<i>Total Assets</i>	41,460	92,446
Liabilities:		
Undistributed Assets	-	90,402
Due to External Parties	215	2,044
<i>Total Liabilities</i>	215	\$ 92,446
Net Assets:		
Held in Trust for Scholarships	3,745	
Endowments	37,500	
<i>Total Net Assets</i>	\$ 41,245	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

Additions:	
Interest	\$ 1,152
Deductions:	
Non-Instructional Services	<u>2,474</u>
<i>Change in Net Assets</i>	(1,322)
Net Assets at Beginning of Year	<u>42,567</u>
<i>Net Assets at End of Year</i>	<u><u>\$ 41,245</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Fremont City 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 guidelines.

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred sixty-two square miles. It is located in central Sandusky County, including all of the City of Fremont and portions of surrounding townships. The School District is the 79th largest in the State of Ohio (among 612 school districts) in terms of enrollment and the largest in Sandusky County. It is staffed by two hundred twenty-two classified employees, three hundred fifteen certified teaching personnel, and twenty-two administrative employees who provide services to 4,304 students and other community members. The School District currently operates seven elementary schools, a middle school, and a comprehensive high school.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements 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 Fremont City School District, this includes general operations, food service, preschool, 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. There are no component units of the Fremont City School District.

The following activity is included within the School District's reporting entity:

Parochial Schools - Within the School District boundaries, St. Ann, St. Joseph Elementary, and St. Joseph High School are operated through the Toledo Catholic Diocese; Sacred Heart is operated as a private school. Current state legislation provides funding to these parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District participates in five jointly governed organizations and two insurance pools. These organizations are the Northern Ohio Educational Computer Association, the Northwestern Ohio Educational Research Council, Inc., the Vanguard-Sentinel Career Center, the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Ohio School Plan, and the Ohio Association of School Business Officials Workers' Compensation

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Group Rating Plan. These organizations are presented in Notes 23 and 24 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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 fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal 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. 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 and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of 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 governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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 proprietary fund financial statements. Fiduciary funds are reported by type.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District has one major governmental fund:

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

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The School District reports one type of proprietary fund:

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 Self Insurance internal service fund accounts for the activities of the program for employee health care benefits.

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its proprietary fund.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

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; the proprietary fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, charges for services, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are a report of estimated tax revenues, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The report of estimated tax revenues identifies the estimated revenues for those funds receiving tax monies as well as various debt and other schedules. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

The School District receives certain operating resources which are received by the Sandusky County Educational Service Center and are expended by the Educational Service Center on the School District's behalf as directed by the School District. Budgetary information for these resources is not included within the School District's reporting entity for which the "appropriated budget" is adopted.

F. Cash and Investments

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

Cash and cash equivalents held for the School District by the Sandusky County Educational Service Center are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$19,708.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at the lower of cost or market on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, and donated and purchased food.

I. Restricted Assets

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

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For the Fiscal Year Ended June 30, 2004
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textbooks. Unclaimed monies that must be held for five years before being spent are also reported as restricted.

J. Capital Assets

All of the School District's capital assets are general capital assets. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of ten thousand dollars. The School District does not have 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 capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Buildings and Building Improvements	5 - 75 years
Furniture, Fixtures, and Equipment	3 - 25 years
Vehicles	7 - 15 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

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 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 all employees after ten years of service with the School District.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations

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(Continued)**

and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund 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, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

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 balance of any borrowing 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 restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources 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 balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for textbooks, notes receivable, unclaimed monies, betterment and maintenance, and encumbrances.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services in the internal service fund. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating.

Q. Interfund Transactions

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

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(Continued)**

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 the proprietary fund. 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 management and are either unusual in nature or infrequent in occurrence.

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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE, CHANGE IN ACCOUNTING ESTIMATES, CORRECTION OF ERRORS, AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principle

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

B. Change in Accounting Estimates

For fiscal year 2004, the School District changed the estimate used in calculating the liability for compensated absences. In prior fiscal years, the School District recorded a liability for compensated absences (sick leave) for certified and classified employees having five or more years of service. For fiscal year 2004, the School District recorded a liability for compensated absences for certified and classified employees having ten or more years of service. The School District believes this criterion establishes a better estimate of amounts to be paid for employee severance.

For fiscal year 2004, the School District changed the estimated useful life of their buses. In prior fiscal years, all vehicles were depreciated over seven years. Beginning in fiscal year 2004, school buses will be depreciated over fifteen years. The School District believes that this change better reflects the useful lives of their buses.

C. Correction of Errors

During fiscal year 2004, the School District discovered several capital leases which had not been recorded in prior years. In addition, there were a number of additions to capital assets which had not been recorded as well as several capital assets which had been disposed of in prior years but which were

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still being reflected in the capital asset balances. Finally, the School District had incorrectly recorded receivables for several grants in the prior fiscal year for grants the School District was not to receive.

D. Restatement of Net Assets

The restatement due to the corrections identified above had the following effect on net assets of the School District as they were previously reported:

	<u>Governmental Activities</u>
Net Assets June 30, 2003	\$ 8,401,664
Correction of Errors	
Intergovernmental Receivable	(193,821)
Capital Leases	(218,290)
Capital Assets	(189,123)
Accumulated Depreciation	<u>231,903</u>
<i>Adjusted Net Assets</i>	<u><u>\$ 8,032,333</u></u>

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the General Fund, and the Food Service, American History Grant, and Disadvantaged Pupil Impact Aid special revenue funds had deficit fund balances, in the amount of \$3,358,176, \$44,706, \$21,595, and \$9,531, respectively, resulting from adjustments for accrued liabilities.

For fiscal year 2004, the Self Insurance internal service fund charged other funds a sufficient amount to cover claims expenses; however, the fund did not charge enough to cover administration costs. As a result, the fund had deficit net assets at the end of the fiscal year, in the amount of \$300,801. The School District will be reviewing premiums again in July 2005.

B. Compliance

For fiscal year 2004, the School District's required reserve for textbooks exceeded the available cash balance in the General Fund; therefore, the restricted assets reflected on the balance sheet were limited to the available cash balance.

The General Fund had original appropriations in excess of estimated resources plus available balances, in the amount of \$1,341,824. The Summer Intervention special revenue fund had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2004, in the amount of \$17,288. The Treasurer is monitoring budgetary controls to avoid future violations of budgetary compliance.

At June 30, 2004, the Al Hetrick Scholarship private purpose trust fund had deficit cash, in the amount of \$215.

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(Continued)**

The School District did not certify the availability of funds prior to certain commitments being certified. The School District had expenditures that exceeded appropriations for several funds throughout the year. In addition, the School District did not amend certificates of estimated resources as needed.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Change in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are as follows:

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 balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

	Change in Fund Balance
GAAP Basis	\$ (3,335,929)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	2,754,364
Accrued FY 2004, Not Yet Received in Cash	(1,680,503)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(3,285,654)
Accrued FY 2004, Not Yet Paid in Cash	4,385,456
Prepaid Items	(234)
Materials and Supplies Inventory	5,245
Tax Anticipation Notes Issued	1,100,000
Advances In	77,575
Excess of Expenditures Over Revenues for Nonbudgeted Funds	1,018
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(40,196)
Budget Basis	\$ (18,858)

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 6 - 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 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 passbook accounts.

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

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7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rated 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$634 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents". The School District also had \$92,096 in cash and cash equivalents which is included as "Cash and Cash Equivalents with Fiscal Agent". This represents monies held by the Sandusky County Educational Service Center who holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

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".

At fiscal year end, the carrying amount of the School District's deposits was \$2,437,491 and the bank balance was \$2,851,408. Of the bank balance, \$235,200 was covered by federal depository insurance and \$2,616,208 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are 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 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 for which the securities 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 classification of cash and cash equivalents and investments on the 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 classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

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For the Fiscal Year Ended June 30, 2004
(Continued)**

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 2,421,081	\$ 109,140
Cash on Hand	(634)	-
Cash and Cash Equivalents with Educational Service Center	(92,096)	-
Investments:		
Certificates of Deposit	109,140	(109,140)
GASB Statement No. 3	\$ 2,437,491	\$ -

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (rent, billings for user charged services, and student fees), accrued interest, intergovernmental, income taxes, interfund, amounts due from external parties, property taxes, judgment, and notes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for the judgment receivable and notes receivable, in the amount of \$5,665 and \$14,999, respectively, are considered collectible within one year. Judgment receivable represents court ordered repayments on defaulted student loans. Notes receivable represent loans made to students for higher education and are repaid according to payment schedules made with the various students.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Homestead and Rollback	\$ 1,535
Miscellaneous	306
<i>Total General Fund</i>	1,841
Other Governmental Funds	
Food Service	433
BWC WorkGRANT\$ Program	5,600
Student Intervention	17,288
Miscellaneous State Grants	385
Title II-A	4,880
Permanent Improvement	120
<i>Total Other Governmental Funds</i>	28,706
<i>Total Governmental Activities</i>	\$ 30,547

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 8 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. Of this amount, .75 percent of the tax was effective on January 1, 1999, and .5 percent of the tax was effective on January 1, 2004. Both will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 9 - PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires.

NOTE 10 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first

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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 Sandusky County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected 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 School District requested and received all monies available as an advance prior to fiscal year end, therefore there was no amount available as an advance at June 30, 2004. The amount available as an advance at June 30, 2003, was \$1,653,111 in the General Fund and \$186,434 in the Permanent Improvement capital projects fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 427,621,550	77.24%	\$ 473,514,990	79.29%
Public Utility	25,545,340	4.61%	25,640,270	4.29%
Tangible Personal	100,505,335	18.15%	98,060,930	16.42%
Total Assessed Value	<u>\$ 553,672,225</u>	<u>100.00%</u>	<u>\$ 597,216,190</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 34.10		\$ 34.10	

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

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(Continued)**

	Restated Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$ 409,270	\$ -	\$ -	\$ 409,270
Depreciable Capital Assets				
Buildings and Building Improvements	16,889,834	146,650	-	17,036,484
Furniture, Fixtures, and Equipment	1,199,479	71,256	(121,032)	1,149,703
Vehicles	2,627,571	243,192	(296,816)	2,573,947
<i>Total Depreciable Capital Assets</i>	<u>20,716,884</u>	<u>461,098</u>	<u>(417,848)</u>	<u>20,760,134</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(6,734,538)	(315,372)	-	(7,049,910)
Furniture, Fixtures, and Equipment	(469,779)	(118,062)	121,031	(466,810)
Vehicles	(2,143,798)	420,621	258,454	(1,464,723)
<i>Total Accumulated Depreciation</i>	<u>(9,348,115)</u>	<u>(12,813)</u>	<u>379,485</u>	<u>(8,981,443)</u>
Depreciable Capital Assets, Net	<u>11,368,769</u>	<u>448,285</u>	<u>(38,363)</u>	<u>11,778,691</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 11,778,039</u>	<u>\$ 448,285</u>	<u>\$ (38,363)</u>	<u>\$ 12,187,961</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 179,112
Special	26,104
Support Services:	
Instructional Staff	2,658
Administration	64,982
Fiscal	1,388
Operation and Maintenance of Plant	106,742
Pupil Transportation	(417,677)
Central	725
Non-Instructional Services	9,383
Extracurricular Activities	39,396
<i>Total Depreciation Expense</i>	<u>\$ 12,813</u>

NOTE 12 - INTERFUND ASSETS/LIABILITIES

At June 30, 2004, the General Fund had an interfund receivable from other governmental funds, in the amount of \$4,348; \$4,188 to provide short-term cash flow resources and \$160 for services provided to other funds. The Food Service special revenue fund had an interfund receivable from other governmental funds, in the amount of \$88 for services provided to other funds. The Permanent Improvement capital projects fund had an interfund receivable from the General Fund, in the amount of \$6,471, for taxes received by the General Fund that were due to the Permanent Improvement fund.

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For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 13 - RISK MANAGEMENT

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 2004, the School District contracted for the following insurance coverage:

Coverage provided by the Midwestern Indemnity Company:	
Buildings and Contents	\$ 63,516,054
Coverage provided by the Mid American Fire and Casualty Company:	
Automobile Liability	\$ 1,000,000
Coverage provided by the Ohio School Plan	
General Liability	
Each Occurrence	\$ 1,000,000
Aggregate	3,000,000

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

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

The School District offers medical, prescription drug, and dental insurance to all employees through a partially self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The School District purchased stop loss insurance for claims in excess of \$100,000 per individual annually and \$1,000,000 per individual, per lifetime. Settled claims have not exceeded this coverage for the past three years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30,

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

2004, were estimated by the third party administrator at \$652,700. The changes in the claims liability for the past two fiscal years are as follow:

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2004	\$ 534,700	\$ 3,408,265	\$ 3,290,265	\$ 652,700
2003	570,000	3,284,986	3,320,286	534,700

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$2,132,198, \$2,116,385, and \$1,516,101, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$4,495 made by the School District and \$17,148 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$429,444, \$368,983, and \$236,033, respectively; 45 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

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

NOTE 15 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$164,361.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$304,440 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 16 - 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 five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty-five days for administrators, supervisors, and classified supervisors; two hundred twenty days for teachers and school calendar employees; and two hundred fifty days for full-time classified employees. Upon retirement, payment is made for one half of accrued, but unused sick leave credit to a maximum of fifty-one days for teachers and thirty-five days for classified employees. Payment for administrators, supervisors, and classified supervisors is made for one fourth up to forty-seven days. In addition, classified employees receive one-half of accrued, but unused sick leave credit in excess of seventy days, up to a maximum of twelve days.

B. Health Care Benefits

The School District provides medical, prescription drug, and dental insurance benefits to all employees through a self-insured program.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

C. Special Termination Benefits

The School District offers a special termination benefit to employees in the first year they are eligible to retire from their respective retirement system. The benefit is available to certified employees who have five or more years of consecutive service and retire from STRS and to classified employees who have seventeen or more years of consecutive service and retire from SERS. The bonus, of twenty days calculated at the employee's daily rate at the time of retirement, will be paid after January 1 and before March 31 of the year following retirement for certified employees and within sixty days of retirement acceptance for classified employees. The bonus carries a provision that classified employees must also have accrued in excess of one hundred fifty days of unused sick leave at the time of retirement.

NOTE 17 - NOTES PAYABLE

During fiscal year 2004, the School District issued \$1,100,000 in tax anticipation notes for general operations of the School District. The notes were issued under the authority of Ohio Revised Code Section 5748.05 for a five year period, with final maturity during fiscal year 2009. The notes have an interest rate of 4.92 percent.

Fiscal Year	Principal	Interest	Total
2005	\$ 220,000	\$ 56,676	\$ 276,676
2006	220,000	43,296	263,296
2007	220,000	32,472	252,472
2008	220,000	21,648	241,648
2009	220,000	10,824	230,824
	<u>\$ 1,100,000</u>	<u>\$ 164,916</u>	<u>\$ 1,264,916</u>

NOTE 18 - LONG-TERM OBLIGATIONS

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

	Balance at 06/30/03	Change in Accounting Estimate	Additions	Reductions	Balance at 06/30/03	Amounts Due Within One Year
Governmental Activities						
General Obligation Bonds						
FY 2001 5.90%	845,000	-	-	105,000	740,000	110,000
Compensated Absences Payable	4,632,590	(627,486)	176,917	188,730	3,993,291	138,963
Capital Leases Payable	218,290	-	-	51,218	167,072	75,378
<i>Total Governmental Activities</i>						
<i>Long-Term Obligations</i>	<u>\$ 5,695,880</u>	<u>\$ (627,486)</u>	<u>\$ 176,917</u>	<u>\$ 344,948</u>	<u>\$ 4,900,363</u>	<u>\$ 324,341</u>

FY 2001 General Obligation Bonds - In fiscal year 2001, the School District issued \$1,045,000 in unvoted general obligation bonds for providing energy conservation measures for the School District. The bonds were issued under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372 for a nine year period, with final maturity during fiscal year 2010. The bonds are being retired through the Bond Retirement debt service fund.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Compensated absences will be paid from the General Fund and the Food Service, Auxiliary Services, Disadvantaged Pupil Impact Aid, Migrant Education, Title VI-B, and Title I special revenue funds. The negative amount reflected for additions to compensated absences in the above table is the result of the School District's change in accounting estimate used for calculating compensated absences.

The School District's overall debt margin was \$53,749,457 with an unvoted debt margin of \$597,216 at June 30, 2004.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2004, were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 110,000	\$ 40,415	\$ 150,415
2006	115,000	33,778	148,778
2007	125,000	26,698	151,698
2008	130,000	19,175	149,175
2009	130,000	11,505	141,505
2010	130,000	3,835	133,835
	<u>\$ 740,000</u>	<u>\$ 135,406</u>	<u>\$ 875,406</u>

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into leases for copiers. Each lease meets 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$51,218 in the governmental funds.

	<u>Governmental Activities</u>
Property under Capital Lease	\$ 285,610
Less Accumulated Depreciation	<u>(169,358)</u>
Total June 30, 2004	<u>\$ 116,252</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 75,378	\$ 7,726
2006	68,196	3,048
2007	23,498	251
<i>Total</i>	<u>\$ 167,072</u>	<u>\$ 11,025</u>

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 20 - 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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbooks	Capital Improvements
Balance June 30, 2003	\$ 839,923	\$ -
Current Year Set Aside Requirement	599,982	599,982
Qualifying Expenditures	(150,346)	-
Current Year Offsets	-	(599,982)
Balance June 30, 2004	\$ 1,289,559	\$ -

NOTE 21 - INTERFUND TRANSFERS

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$8,757, as debt payments came due. Other governmental funds made transfers to other governmental funds, in the amount of \$85,818; \$68,157 to subsidize activities in other funds and \$17,661 for services provided.

NOTE 22 - DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments. Endowments, in the amount of \$37,500, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$3,745 and is reflected as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

NOTE 23 - JOINTLY GOVERNED ORGANIZATIONS

A. Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. During fiscal year 2004, the School District paid \$82,975 to NOECA for various services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Northwestern Ohio Educational Research Council, Inc.

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

C. Vanguard-Sentinel Career Center

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

D. Northwest Ohio Special Education Regional Resource Center

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

E. Northwest Ohio Regional Professional Development Center

The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning.

The RPDC is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2nd Floor, Toledo, Ohio 43602.

NOTE 24 - INSURANCE POOLS

A. Ohio School Plan

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

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by the five-member OASBO Board of Directors. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 25 - FISCAL CAUTION

On April 10, 2003, the School District was declared in fiscal caution by the State Department of Education due to projected deficits. The School District's current five-year forecast reflects positive fund balances through fiscal year 2008. Fiscal year 2009 currently reflects a projected deficit. The State Department of Education continues to monitor the School District's financial activity.

NOTE 26 - STATE SCHOOL FUNDING DECISION

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 27 - CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the School District as defendant.

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**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution	10.550	
School Breakfast	10.553	05PU-2003 05PU-2004
<i>Total - School Breakfast</i>		
National School Lunch	10.555	LLP1-2003 LLP1-2004 LLP4-2003 LLP4-2004
<i>Total - National School Lunch</i>		
Summer Food Service Program for Children	10.559	23PU-2003 24PU-2003
<i>Total - Summer Food Program for Children</i>		
<i>Total Nutrition Cluster</i>		
Total U.S. Department of Agriculture		
U.S. DEPARTMENT OF EDUCATION		
<i>Direct Grant:</i>		
Teaching American History Grants	84.215X	
<i>Passed Through Ohio Department of Education</i>		
Title I	84.010	C1S1-2003 C1S1-2004 C1SD-2003 C1SD-2004
<i>Total - Title I</i>		
Migrant Education Basic State Grant Program	84.011	MGS1-2002 MGS1-2003 MGS1-2004
<i>Total - Migrant Education Basic State Grant Program</i>		
Special Education Grants to States	84.027	6BSF-2003-P 6BSF-2004
<i>Total - Special Education Grants to States</i>		

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$ 141,388		\$ 141,388
\$ 8,294		\$ 8,294	
63,003		63,003	
71,297		71,297	
981		981	
10,567		10,567	
69,750		69,750	
436,826		436,826	
518,124		518,124	
31,668		31,668	
4,043		4,043	
35,711		35,711	
625,132	141,388	625,132	141,388
625,132	141,388	625,132	141,388
195,285		182,426	
85,904		339,027	
971,843		591,231	
13,406		15,746	
26,842		26,842	
1,097,995		972,846	
82,125		11,751	
173,123		119,306	
255,248		16,225	
213,710		147,282	
679,005		200,568	
892,715		650,182	
		850,750	

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004
(Continued)**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
Safe and Drug Free Schools - State Grants Title IV	84.186	DRS1-2003 DRS1-2004
<i>Total - Safe and Drug Free Schools</i>		
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	GSS2-2001 GSS9-2002
<i>Total - Goals 2000</i>		
Eisenhower Professional Development State Grants	84.281	MSS1-2002
Innovative Educational Program Strategies	84.298	C2S1-2002 C2S1-2003 C2S1-2004
<i>Total - Innovative Educational Program Strategies</i>		
Technology Literacy Challenge Grant Funds	84.318	TJS1-2003 TJS1-2004
Comprehensive School Reform	84.332	RFS2-2002 RFS2-2003
<i>Total - Comprehensive School Reform</i>		
Class Size Reduction	84.340	CRS1-2002
School Renovation Grant	84.352A	ATS3-2002
Improving Teacher Quality State Grants, Title II, Part A	84.367	TRS1-2003 TRS1-2004
Total U.S. Department of Education		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>		
Medical Assistance Program (Medicaid: Title XIX)	93.778	
Total Federal Awards Expenditures		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

Fremont City School District
Sandusky County
1220 Cedar Street, Suite A
Fremont, Ohio 43420-1156

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 19, 2005, in which we noted that the District is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Controller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-007.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated April 19, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and question costs as items 2004-001 through 2004-006. In a separate letter to the District's management dated April 19, 2005, we reported other related matters.

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



Betty Montgomery
Auditor of State

April 19, 2005



**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**

Fremont City School District
Sandusky County
1220 Cedar Street, Suite A
Fremont, Ohio 43420-1156

To the Board of Education:

Compliance

We have audited the compliance of Fremont City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and question costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2004-008. We noted certain instances of noncompliance that do not require inclusion on this report that we have reported to the management of the District in a separate letter dated April 19, 2005.

Internal Control over Compliance

The management of the School 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 School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



Betty Montgomery
Auditor of State

April 19, 2005

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Findings and Question Costs
OMB Circular A-133 § .505
June 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Improving Teacher Quality State Grants / CFDA 84.367 Special Education Grants to States / CFDA 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Finding for Recovery

OMB Circular A-87, Attachment B, Section 8(a) states that compensation for personnel services are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individuals or employees is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities.

**FINDING NUMBER 2004-001
 (Continued)**

The School District contracted with Beth Swecker to provide tutoring services to a special education student at a rate of \$15 per hour. For the months of July and August, 2003, the tutor was entitled to fourteen hours of compensation, or \$210. Review of the time sheets attached to voucher number 14536 indicated that duplicate time sheets were remitted by the tutor. As a result, an overpayment of \$210 occurred.

<u>Description</u>	<u>Rate</u>	<u>Total</u>
Amount per Voucher 14536		\$ 420
14 hours of tutoring services	X \$15 per hour	210
Overpayment		<u>\$ 210</u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money that has been illegally expended is hereby issued against Patricia Penny, Treasurer, Beth Swecker, Special Education Tutor, and the Ohio School Plan, jointly and severally, in the amount of two hundred and ten dollars and zero cents (\$210) and in favor of the Title VI-B Fund.

The finding for recovery against Beth Swecker was repaid during audit on December 13, 2004 and was credited to the Title VI-B Fund.

FINDING NUMBER 2004-002

Finding for Recovery

On July 29, 2003, the Board of Education entered into contract with Donald King, hiring him as Superintendent for the period commencing on the 1st day of August 2003 and ending on the 31st day of July 2006. The contract provided that Mr. King be paid \$114,400 per year. Mr. King was overpaid as follows:

<u>Description</u>	<u>Amount</u>
Amount paid	\$ 115,000
Amount due per Contract	114,400
Overpayment	<u>\$ 600</u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public money that has been illegally expended is hereby issued against Patricia Penny, Treasurer, Cincinnati Insurance Company, Donald King, Superintendent, and his bonding company, Travelers Casualty and Surety Company of America, jointly and severally, in the amount of six hundred dollars and zero cents (\$600) and in favor of the General Fund.

The finding for recovery against Donald King was repaid during the audit and was credited to the General Fund.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code § 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund was established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had deficit balances throughout the year:

OCTOBER 2003		FEBRUARY 2004	
Fund	Deficit Amount	Fund	Deficit Amount
General	\$ (1,134,397)	Food Service	\$ (119,934)
Food Service	\$ (80,532)	Title I	\$ (11,102)
Title VI-B	\$ (159,331)		
Title I	\$ (37,857)		

Several other funds also had such variances in smaller relative amounts. In some cases, the deficits are the result of spending expected revenues prior to actually receiving the funds. We recommend the Treasurer monitor cash balances and make transfers or advances from the General Fund as necessary to avoid deficit balances.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code § 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures therefrom, as certified by the budget commission. The School District should have received an increased amendment certificate of estimated resources to avoid appropriations exceeding estimated resources for the following funds:

OCTOBER 2003			
Fund	Estimated Resources	Appropriations	Variance
Instructional Programs	\$ -	\$ 279,456	\$ (279,456)
IDEA Grant	-	940,930	(940,930)

FEBRUARY 2004			
Fund	Estimated Resources	Appropriations	Variance
Instructional Programs	\$ -	\$ 279,456	\$ (279,456)
IDEA Grant	-	925,064	(925,064)

Several other funds also had such variances in smaller relative amounts. To avoid over appropriating, we recommend the School District monitor appropriations and estimated resources to ensure that appropriations do not exceed the amount of estimated resources.

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states no subdivision is to expend money unless it has been appropriated as provided in this chapter. The School District had expenditures that exceeded appropriations as follows:

OCTOBER 2003			
Fund	Appropriations	Expenditures	Variance
Permanent Improvement	\$ 419,470	\$ 671,511	\$ (252,041)
Food Service	316,968	396,190	(79,222)
Hospitalization	52,018	2,016,434	(1,964,416)
Self Insurance		2,042,445	(2,042,445)
Disadvantaged Pupil Impact	13,238	48,592	(35,354)

FEBRUARY 2004			
Fund	Appropriations	Expenditures	Variance
Self Insurance	\$ -	\$ 2,660,481	\$ (2,660,481)
Disadvantaged Pupil Impact	13,238	114,074	(100,836)

Failure to have adequate appropriations in place at the time expenditures are being made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board of Education approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-006

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**FINDING NUMBER 2004-006
(Continued)**

1. **“Then and Now” certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Commissioners can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the “then and now” certificate to approve payment by resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty-six percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the School District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of School District funds being over expended or exceeding budgetary spending limitations as set by the Board.

To improve controls over disbursements, we recommend all School District disbursements receive prior certification of the Treasurer and the Board periodically review the expenditures made to ensure they are within the appropriations adopted by the Board, certified by the Treasurer, and recorded against appropriations.

FINDING NUMBER 2004-007

Reportable Condition - Students Activities

Sales Project Potential Forms were not prepared for thirty-three percent of fundraisers tested during the audit period. This weakness reduces the controls over student activities. To improve controls over students activities, we recommend “Sales Project Potential Forms” be completed for all student activity fund raisers and sales. The Treasurer should review the forms for completeness and accuracy.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Undocumented Costs

Finding Number	2004-008
CFDA Title and Number	Improving Teacher Quality State Grants / 84.367
Federal Award Number / Year	044016- TRS1-2004 and 044016-TRS1 -2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs

OMB Circular A-87, Attachment B, Section 8(h)(1) states that charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

During the year ending June 30, 2004 the School District charged \$87,766 in payroll and related costs to the Improving Teacher Quality grant fund through memo/correcting entries in the form of lump sum adjustments. Based on our inquiries and observations, there were only two teachers paid in full from this fund. The remaining payroll costs could not be explained by the School District. As such, we were unable to determine if the expenditures were for allowable activities and costs. Of the \$87,766 in questioned expenditures, \$45,184 represents charges made to the program fund for substitute teachers. While these expenditures are permissible based on review of allowable activity guidelines, we were unable to determine the reasonableness of the amount(s) charged due to insufficient procedures in place to document which substitute teachers worked for a particular teacher and the reason for that teacher being absent from the classroom.

The failure to adequately document payroll costs expenses to a program such as Improving Teacher Quality could allow for unauthorized payroll and related expenses to be charged to the program, subjecting the School District to loss of federal funding.

The School District should refrain from allowing correcting entries to be made prior to obtaining adequate documentation of such entries in order to ensure they are consistent with the purpose of the grant.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Prior Audit Findings
June 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Finding for Recovery Overpayment of students activities	Yes	
2003-002	Ohio Revised Code § 5705.10 negative cash fund balances.	No	Not corrected. Reported as finding number 2004-003.
2003-003	Ohio Revised Code § 5705.41(D) Failure to certify expenditures.	No	Not corrected. Reported as finding number 2004-006.
2003-004	Ohio Revised Code § 5705.41(B) Expenditures exceeded appropriations.	No	Not corrected. Reported as finding number 2004-005.
2003-005	Student Activities Failure to compete Sales Project Potential Forms.	No	Not corrected. Reported as finding number 2004-007.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Corrective Action Plan
OMB Circular A -133 § .315 (c)
June 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-008	The new Treasurer will require supporting documentation to be submitted before payment is approved for payment.	6/30/05	Cheryl Burkin, Treasurer



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FREMONT CITY SCHOOL DISTRICT

SANDUSKY 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
MAY 31, 2005**