



Mary Taylor, CPA
Auditor of State

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule provides additional information and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

February 20, 2007

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Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- ❑ Net assets increased \$20,190,514. Net assets of governmental activities increased \$20,176,966 and net assets of business-type activities increased \$13,548 from fiscal year 2005.
- ❑ For governmental activities general revenues accounted for \$28,492,908 in revenue or 94.94 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1,517,918, or 5.06 percent of total revenues of \$30,010,826.
- ❑ The School District had \$9,738,921 in expenses related to governmental activities; only \$1,517,918 of these expenses were offset by program specific charges for services, grants or contributions.
- ❑ Net assets for business type activities increased by \$13,548. Operating revenues of \$285,729, and grants of \$101,004, were below operating expenses of \$470,608. A \$94,939 transfer was made from the general fund.

Using this Annual Financial Report (AFR)

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

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

Fredericktown Local School District
Management's Discussion and Analysis
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Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. Changes to our net assets are a direct result of property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

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

- ❑ Governmental Activities – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- ❑ Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District food service, uniform school supplies and latchkey programs are reported as a business activity.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund, debt service fund, Ohio school facilities, and food service fund.

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$26,548,875	\$7,192,996	\$66,075	\$37,936	\$26,614,950	\$7,230,932
Capital Assets	9,690,250	9,360,623	393,697	401,731	10,083,947	9,762,354
Total Assets	36,239,125	16,553,619	459,772	439,667	36,698,897	16,993,286
Liabilities						
Long-Term Liabilities	8,065,637	8,307,315	14,920	14,538	8,080,557	8,321,853
Other Liabilities	4,250,978	4,500,760	39,348	33,173	4,290,326	4,533,933
Total Liabilities	12,316,615	12,808,075	54,268	47,711	12,370,883	12,855,786
Net Assets						
Invested in Capital						
Assets, Net of Debt	2,341,657	1,850,570	393,697	401,731	2,735,354	2,252,301
Restricted	19,588,326	875,725	0	0	19,588,326	875,725
Unrestricted (Deficit)	1,992,527	1,019,249	11,807	(9,775)	2,004,334	1,009,474
Total Net Assets	\$23,922,510	\$3,745,544	\$405,504	\$391,956	\$24,328,014	\$4,137,500

Net assets of the School District's governmental activities increased \$20,176,966 from the prior year. The majority of this increase is due to intergovernmental monies received from the Ohio School Facilities Commission to construct a new PK-12 building for the School District.

The net assets of the School District business-type activities increased \$13,548 from the prior year. The general fund transferred \$94,939 to the food service fund to offset the increased expenses.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for fiscal year 2006.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for Services and Sales	\$698,742	\$638,887	\$285,729	\$253,452	\$984,471	\$892,339
Operating Grants and Contributions	819,176	814,319	101,004	92,869	920,180	907,188
Total Program Revenues	<u>1,517,918</u>	<u>1,453,206</u>	<u>386,733</u>	<u>346,321</u>	<u>1,904,651</u>	<u>1,799,527</u>
General Revenues:						
Property Taxes	4,829,667	3,432,670	0	0	4,829,667	3,432,670
Grants and Entitlements	23,415,600	4,195,227	0	0	23,415,600	4,195,227
Other	247,641	263,525	2,484	1,223	250,125	264,748
Total General Revenues	<u>28,492,908</u>	<u>7,891,422</u>	<u>2,484</u>	<u>1,223</u>	<u>28,495,392</u>	<u>7,892,645</u>
Total Revenues	<u>30,010,826</u>	<u>9,344,628</u>	<u>389,217</u>	<u>347,544</u>	<u>30,400,043</u>	<u>9,692,172</u>
Expenses						
Instruction	5,308,643	5,238,700	0	0	5,308,643	5,238,700
Support Services:						
Pupil and Instructional Staff	1,098,822	1,015,038	0	0	1,098,822	1,015,038
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central Operation and Maintenance of Plant	1,172,797	1,085,245	0	0	1,172,797	1,085,245
Pupil Transportation	930,763	763,580	0	0	930,763	763,580
Extracurricular Activities	549,396	486,343	0	0	549,396	486,343
Interest and Fiscal Charges	288,004	463,862	0	0	288,004	463,862
Enterprise Operations	390,496	396,678	0	0	390,496	396,678
	0	0	470,608	380,572	470,608	380,572
Total Expenses	<u>9,738,921</u>	<u>9,449,446</u>	<u>470,608</u>	<u>380,572</u>	<u>10,209,529</u>	<u>9,830,018</u>
Increase (Decrease) in Net Assets Before Transfers	20,271,905	(104,818)	(81,391)	(33,028)	20,190,514	(137,846)
Transfers	(94,939)	(50,278)	94,939	50,278	0	0
Increase (Decrease) in Net Assets	20,176,966	(155,096)	13,548	17,250	20,190,514	(137,846)
Net Assets Beginning of Year	<u>3,745,544</u>	<u>3,900,640</u>	<u>391,956</u>	<u>374,706</u>	<u>4,137,500</u>	<u>4,275,346</u>
Net Assets End of Year	<u>\$23,922,510</u>	<u>\$3,745,544</u>	<u>\$405,504</u>	<u>\$391,956</u>	<u>\$24,328,014</u>	<u>\$4,137,500</u>

Fredericktown Local School District

*Management's Discussion and Analysis
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Total revenues of governmental activities increased by 221.16 percent. This increase was due to:

- Property taxes revenues increased by 40.70 percent due to fluctuations in the amount available for advances from the counties in the School District.
- Grant and entitlement revenues increased by 458.15 percent due to grant monies received from the Ohio Schools Facilities Commission for construction of a new PK-12 building for the School District.

Total expenses of governmental activities increased by 3.06 percent. This increase was due to:

- Operation and Maintenance cost increased by 21.89 percent due to increases in utility costs.
- Pupil Transportation costs increased by 12.96 percent due to increases in fuel and maintenance costs.

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction of collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the homes were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00 and the School District would collect the same dollar value the levy generated in the years past. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$4,829,667 in 2006. General revenues from grants and entitlements, such as the school foundation program and Ohio School Facilities Commission grants generated \$23,415,600. With the combination of taxes and intergovernmental funding over 94.12 percent of all expenses and intergovernmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 54.51 percent of governmental program expenses. Interest expense was 4.01 percent. Interest expense was attributable to the outstanding construction bond.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$5,308,643	\$5,238,700	(\$4,197,873)	(\$4,178,487)
Support Services:				
Pupil and Instructional Staff	1,098,822	1,015,038	(920,934)	(848,457)
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central Operation and Maintenance of Plant	1,172,797	1,085,245	(1,160,597)	(1,073,320)
Pupil Transportation	930,763	763,580	(923,678)	(755,703)
Extracurricular Activities	549,396	486,343	(549,396)	(486,343)
Interest and Fiscal Charges	288,004	463,862	(78,029)	(257,252)
	390,496	396,678	(390,496)	(396,678)
Total Expenses	<u>\$9,738,921</u>	<u>\$9,449,446</u>	<u>(\$8,221,003)</u>	<u>(\$7,996,240)</u>

Business-Type Activities

Business-type activities include the food service operation, latchkey after school care and uniform school supplies. These programs had revenues of \$389,217 and expenses of \$470,608 for fiscal year 2006. To insure that the net assets are not reduced in fiscal year 2007, the School District is taking steps to reduce expenses by using a food service management company.

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,726,796 and expenditures of \$10,876,341. The net change in fund balance for the year was an increase of \$755,516. The general fund had revenues of \$9,081,944 and expenditures of \$8,698,218. This surplus of \$288,787 is due an increase in tax, tuition and interest revenues. The bond retirement fund had revenues of \$685,701 and expenditures of \$539,443 leaving a surplus of \$146,258. This surplus is a result of an increase in property taxes revenues. The Ohio school facilities fund had revenues of \$907,909 and expenditures of \$494,312 leaving a surplus of \$413,597 due to an increase in intergovernmental revenues.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the School District amended its general fund budget numerous times to allow for insignificant amendments.

For the general fund, budget basis revenue was \$8,684,966, above original budget estimates of \$8,218,023. Of this \$466,943 difference, most was due to taxes, tuition and fees and intergovernmental revenues.

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The original appropriations of \$9,314,865 stayed fairly constant. Final appropriations were \$9,401,217. The appropriations were increased based on increases in anticipated revenues. Expenditures, however, were only \$8,695,388 or \$705,829 less than anticipated. This \$705,829 difference is due to the fact that the School District did not spend what it anticipated throughout the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$10,083,947 invested in capital assets with \$9,690,250 used for governmental activities. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$408,500	\$408,500	\$0	\$0	\$408,500	\$408,500
Construction in Progress	391,963	0	0	0	391,963	0
Land Improvements	215,645	59,050	0	0	215,645	59,050
Buildings and Improvements	8,036,674	8,230,032	249,512	255,129	8,286,186	8,485,161
Furniture and Equipment	406,766	430,951	144,185	146,602	550,951	577,553
Vehicles	230,702	232,090	0	0	230,702	232,090
Totals	\$9,690,250	\$9,360,623	\$393,697	\$401,731	\$10,083,947	\$9,762,354

For fiscal year 2001, a change in Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2006, this amounted to \$156,635 for each set aside. For fiscal year 2006, the School District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The School District has budgeted to meet these requirements. For more information on capital assets refer to Note 9 to the Basic Financial Statements.

Debt

At June 30, 2006 the School District had \$7,430,000 in bonds outstanding with \$200,000 due within one year. Table 5 summarizes the bonds outstanding:

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

(Table 5)
 Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
General Obligation Bonds:		
2001 School Improvement Bonds	\$7,380,000	\$7,520,000
Energy Conservation Bonds	50,000	75,000
Total	\$7,430,000	\$7,595,000

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

The electors of the School District approved the issuance of bonds in the amount of \$7.9 million at the election held on November 7, 2000, and bonds were issued pursuant to such voted authority. The bonds were issued for the construction of a discrete portion of a K-8 facility to serve grades K-3; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the site. The School District has been approved to participate in the Expedited Local Partnership Program of the Ohio School Facilities Commission, under which the State will fund 71 percent of the School District's future facility needs after the issuance of the bonds.

At June 30, 2006, the School District's overall legal debt margin was \$6,477,698 with an unvoted debt margin of \$131,576. For more information, refer to Note 14 to the Basic Financial Statements.

Current Issues Affecting Financial Condition

The School District has established a medical benefits committee of staff, administration and board members. During 2004/05 negotiations, the School District increased deductibles, out-of-pocket expenses, increased prescription drug co-pay and implemented higher deductibles and higher out-of-pocket expenses for non-PPO expenses. The School District returned \$100,000 to the general fund on June 5, 2006 from the self insurance internal service fund.

The end of fiscal year 2004 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on July 15, 2004 with a one year salary set at a two percent increase with re-opener on salary for the last two years of the contract. Fiscal year 2006 reflects a two percent and fiscal year 2007 a two and a half percent increase in salary. The end of fiscal year 2004 also marked the expiration of the classified employees' three year contract. A new three-year labor agreement was approved June 29, 2004. Their economic package contained in the new contract provides for two percent increase for the first year with a re-opener on insurance and salary on May 2005. This re-opener also reflects the two percent and two and a half percent salary increase for fiscal year 2006 and 2007. There were only minor changes to the insurance plan.

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

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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

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

Fredericktown was one of the pilot schools in OSFC's Expedited Local Partnership program. We passed a 5.33 mill Bond Issue in November 2000 and built the K-3 portion of an eventual K-8 building. The building opened to students in August 2003. In the Fall of 2003 the School District applied for funding through OSFC's Exceptional Needs Program to complete the second phase of the building project and to replace the current Intermediate building that dates back to 1894.

Although the School District was not funded for fiscal years 2004 or 2005, through a concerted effort, the School District was approved for exceptional needs and the School Board accepted the financial plan August 18, 2005. Because the original Master Plan called for renovation of the High School at an estimated cost of \$4 Million and today the estimated cost is \$8 Million, OSFC recommends that we build a new High School Building. The project now reflects a PK-12 building. The site work was started in the Summer of 2006 and the School District anticipates moving into the completed facility in August 2008.

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

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

Contacting the School District's Financial Management

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

Fredericktown Local School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,450,844	\$37,894	\$3,488,738
Cash and Cash Equivalents			
In Segregated Accounts	1,585	0	1,585
Cash and Cash Equivalents			
With Fiscal Agents	438,751	0	438,751
Accrued Interest Receivable	1,918	0	1,918
Accounts Receivable	250	0	250
Intergovernmental Receivable	18,262,078	12,050	18,274,128
Taxes Receivable	4,316,513	0	4,316,513
Internal Balances	(4,471)	4,471	0
Inventory Held for Resale	0	8,342	8,342
Materials and Supplies Inventory	0	3,318	3,318
Deferred Charges	81,407	0	81,407
Nondepreciable Capital Assets	800,463	0	800,463
Depreciable Capital Assets, Net	8,889,787	393,697	9,283,484
<i>Total Assets</i>	<u>36,239,125</u>	<u>459,772</u>	<u>36,698,897</u>
Liabilities			
Accounts Payable	63,033	8,709	71,742
Contracts Payable	102,134	0	102,134
Accrued Wages Payable	704,293	15,673	719,966
Intergovernmental Payable	173,979	14,966	188,945
Matured Compensated Absences Payable	42,784	0	42,784
Deferred Revenue	2,772,959	0	2,772,959
Matured Bonds Payable	48,000	0	48,000
Matured Interest Payable	13,020	0	13,020
Accrued Interest Payable	33,015	0	33,015
Claims Payable	297,761	0	297,761
Long-Term Liabilities:			
Due Within One Year	292,542	2,403	294,945
Due In More Than One Year	7,773,095	12,517	7,785,612
<i>Total Liabilities</i>	<u>12,316,615</u>	<u>54,268</u>	<u>12,370,883</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,341,657	393,697	2,735,354
Restricted for:			
Capital Projects	18,961,514	0	18,961,514
Debt Service	526,173	0	526,173
Other Purposes	100,639	0	100,639
Unrestricted	1,992,527	11,807	2,004,334
<i>Total Net Assets</i>	<u>\$23,922,510</u>	<u>\$405,504</u>	<u>\$24,328,014</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Instruction:			
Regular	\$4,261,125	\$481,682	\$90,054
Special	955,041	0	520,769
Vocational	90,794	0	17,708
Adult/Continuing	1,683	0	557
Support Services:			
Pupil	343,264	0	5,000
Instructional Staff	755,558	0	172,888
Board of Education	43,313	0	0
Administration	806,309	0	3,200
Fiscal	249,365	0	0
Business	64,517	0	0
Operation and Maintenance of Plant	930,763	7,085	0
Pupil Transportation	549,396	0	0
Central	9,293	0	9,000
Extracurricular Activities	288,004	209,975	0
Interest and Fiscal Charges	390,496	0	0
<i>Total Governmental Activities</i>	<u>9,738,921</u>	<u>698,742</u>	<u>819,176</u>
Business-Type Activities			
Food Service	418,153	231,600	101,004
Latchkey	28,575	22,286	0
Uniform School Supplies	23,880	31,843	0
<i>Total Business-Type Activities</i>	<u>470,608</u>	<u>285,729</u>	<u>101,004</u>
<i>Totals</i>	<u><u>\$10,209,529</u></u>	<u><u>\$984,471</u></u>	<u><u>\$920,180</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Classroom Facilities Maintenance

Grants and Entitlements not Restricted
to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$3,689,389)	\$0	(\$3,689,389)
(434,272)	0	(434,272)
(73,086)	0	(73,086)
(1,126)	0	(1,126)
(338,264)	0	(338,264)
(582,670)	0	(582,670)
(43,313)	0	(43,313)
(803,109)	0	(803,109)
(249,365)	0	(249,365)
(64,517)	0	(64,517)
(923,678)	0	(923,678)
(549,396)	0	(549,396)
(293)	0	(293)
(78,029)	0	(78,029)
(390,496)	0	(390,496)
<u>(8,221,003)</u>	<u>0</u>	<u>(8,221,003)</u>
0	(85,549)	(85,549)
0	(6,289)	(6,289)
<u>0</u>	<u>7,963</u>	<u>7,963</u>
<u>0</u>	<u>(83,875)</u>	<u>(83,875)</u>
<u>(8,221,003)</u>	<u>(83,875)</u>	<u>(8,304,878)</u>
3,870,851	0	3,870,851
635,265	0	635,265
296,301	0	296,301
27,250	0	27,250
23,415,600	0	23,415,600
148,909	0	148,909
<u>98,732</u>	<u>2,484</u>	<u>101,216</u>
28,492,908	2,484	28,495,392
<u>(94,939)</u>	<u>94,939</u>	<u>0</u>
<u>28,397,969</u>	<u>97,423</u>	<u>28,495,392</u>
20,176,966	13,548	20,190,514
<u>3,745,544</u>	<u>391,956</u>	<u>4,137,500</u>
<u>\$23,922,510</u>	<u>\$405,504</u>	<u>\$24,328,014</u>

Fredericktown Local School District

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Bond Retirement Debt Service	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,013,875	\$432,928	\$515,731	\$305,561	\$3,268,095
Cash and Cash Equivalents in Segregated Accounts	0	0		1,585	1,585
Cash and Cash Equivalents With Fiscal Agents	0	61,020	0	0	61,020
Accrued Interest Receivable	1,918	0	0	0	1,918
Accounts Receivable	250	0	0	0	250
Interfund Receivable	200,371	0	0	0	200,371
Intergovernmental Receivable	6,101	0	18,245,977	10,000	18,262,078
Taxes Receivable	3,550,646	554,177	0	211,690	4,316,513
<i>Total Assets</i>	<u>\$5,773,161</u>	<u>\$1,048,125</u>	<u>\$18,761,708</u>	<u>\$528,836</u>	<u>\$26,111,830</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$55,700	\$0	\$0	7,333	\$63,033
Accrued Wages Payable	683,199	0	0	21,094	704,293
Contracts Payable	0	0	102,134	0	102,134
Interfund Payable	0	0	0	10,000	10,000
Intergovernmental Payable	173,376	0	0	603	173,979
Matured Compensated Absences Payable	42,784	0	0	0	42,784
Matured Bonds Payable	0	48,000	0	0	48,000
Matured Interest Payable	0	13,020	0	0	13,020
Deferred Revenue	2,415,025	359,532	18,245,977	124,938	21,145,472
<i>Total Liabilities</i>	<u>3,370,084</u>	<u>420,552</u>	<u>18,348,111</u>	<u>163,968</u>	<u>22,302,715</u>
Fund Balances					
Reserved for Encumbrances	110,411	0	728,293	10,301	849,005
Reserved for Property Taxes	1,135,621	194,645	0	96,752	1,427,018
Unreserved, Undesignated Reported In:					
General Fund	1,157,045	0	0	0	1,157,045
Special Revenue Funds	0	0	0	64,641	64,641
Debt Service Funds	0	432,928	0	0	432,928
Capital Projects Funds (Deficit)	0	0	(314,696)	193,174	(121,522)
<i>Total Fund Balances</i>	<u>2,403,077</u>	<u>627,573</u>	<u>413,597</u>	<u>364,868</u>	<u>3,809,115</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,773,161</u>	<u>\$1,048,125</u>	<u>\$18,761,708</u>	<u>\$528,836</u>	<u>\$26,111,830</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Funds Balances		\$3,809,115
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,690,250
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	116,536	
Intergovernmental	18,255,977	
Total		18,372,513
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Net Assets	72,348	
Internal Balances	(4,471)	
Total		67,877
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(33,015)
In the statement of activities, bond issuance costs are amortized over the time the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		81,407
Long-term liabilities, including bonds payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(7,380,000)	
General Obligation Bond Premium	(84,280)	
Compensated Absences	(551,357)	
Energy Conservation Bonds	(50,000)	
Total		(8,065,637)
<i>Net Assets of Governmental Activities</i>		\$23,922,510

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement Debt Service	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$3,842,935	\$625,248	\$0	\$319,075	\$4,787,258
Intergovernmental	4,487,601	60,453	905,245	540,490	5,993,789
Interest	141,739	0	2,664	1,965	146,368
Tuition and Fees	481,232	0	0	450	481,682
Extracurricular Activities	21,270	0	0	188,705	209,975
Rentals	8,435	0	0	0	8,435
Contributions and Donations	0	0	0	557	557
Miscellaneous	98,732	0	0	0	98,732
<i>Total Revenues</i>	<u>9,081,944</u>	<u>685,701</u>	<u>907,909</u>	<u>1,051,242</u>	<u>11,726,796</u>
Expenditures					
Current:					
Instruction:					
Regular	4,267,340	0	0	109,332	4,376,672
Special	796,835	0	0	214,177	1,011,012
Vocational	101,974	0	0	0	101,974
Adult/Continuing	0	0	0	1,683	1,683
Support Services:					
Pupil	362,430	0	0	6,134	368,564
Instructional Staff	487,435	0	0	186,197	673,632
Board of Education	43,313	0	0	0	43,313
Administration	887,047	0	0	5,114	892,161
Fiscal	223,568	11,173	0	0	234,741
Business	64,517	0	0	0	64,517
Operation and Maintenance of Plant	654,389	0	0	0	654,389
Pupil Transportation	540,024	0	0	0	540,024
Central	0	0	0	9,293	9,293
Extracurricular Activities	241,002	0	0	178,938	419,940
Capital Outlay	0	0	494,312	433,500	927,812
Debt Service:					
Principal Retirement	25,000	140,000	0	0	165,000
Interest and Fiscal Charges	3,344	388,270	0	0	391,614
<i>Total Expenditures</i>	<u>8,698,218</u>	<u>539,443</u>	<u>494,312</u>	<u>1,144,368</u>	<u>10,876,341</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	383,726	146,258	413,597	(93,126)	850,455
Other Financing Uses					
Transfers Out	(94,939)	0	0	0	(94,939)
<i>Net Change in Fund Balances</i>	288,787	146,258	413,597	(93,126)	755,516
<i>Fund Balances Beginning of Year</i>	<u>2,114,290</u>	<u>481,315</u>	<u>0</u>	<u>457,994</u>	<u>3,053,599</u>
<i>Fund Balances End of Year</i>	<u><u>\$2,403,077</u></u>	<u><u>\$627,573</u></u>	<u><u>\$413,597</u></u>	<u><u>\$364,868</u></u>	<u><u>\$3,809,115</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$755,516

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities,
the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeds capital outlay in the current period.

Capital Assets Additions	717,425	
Current Year Depreciation	(383,745)	
Total		333,680

Governmental funds only report the disposal of capital assets to the extent proceeds are received
from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,053)

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

Delinquent Property Taxes	42,409	
Intergovernmental	18,240,430	
Rentals	(1,350)	
Total		18,281,489

Repayment of school improvement bonds, and energy bonds are an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net assets.

School Improvement Bonds	140,000	
Energy Conservation Bonds	25,000	
Total		165,000

Some expenses reported in the statement of activities, such as compensated absences of current
financial resources and therefore are not reported as expenditures in governmental funds. 72,932

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

Bond Issuance Costs	(3,540)	
Bond Premium	3,746	
Accrued Interest	912	
Total		1,118

The internal service fund used by management to charge the cost of health insurance to individual
funds is not reported in the entity-wide statement of activities. Governmental expenditures and
related internal service fund revenues are eliminated. The change for the governmental funds
is reported for the year.

Change in Net Assets	608,589	
Internal Balances	(37,305)	
Total		571,284

Change in Net Assets of Governmental Activities \$20,176,966

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$3,252,960	\$3,399,217	\$3,404,725	\$5,508
Intergovernmental	4,184,913	4,484,106	4,487,601	3,495
Interest	75,000	138,000	141,106	3,106
Tuition and Fees	405,000	485,000	481,232	(3,768)
Extracurricular Activities	21,000	21,000	21,270	270
Rentals	7,150	7,150	7,085	(65)
Miscellaneous	272,000	147,000	141,947	(5,053)
<i>Total Revenues</i>	8,218,023	8,681,473	8,684,966	3,493
Expenditures				
Current:				
Instruction:				
Regular	4,385,016	4,382,739	4,185,263	197,476
Special	1,074,601	1,086,601	842,555	244,046
Vocational	115,631	115,631	94,292	21,339
Support Services:				
Pupil	371,180	371,380	350,316	21,064
Instructional Staff	560,332	554,432	500,558	53,874
Board of Education	58,113	57,813	44,485	13,328
Administration	921,471	930,050	864,229	65,821
Fiscal	236,143	236,143	227,089	9,054
Business	68,146	68,146	66,766	1,380
Operation and Maintenance of Plant	689,863	723,463	688,779	34,684
Pupil Transportation	550,007	590,007	560,996	29,011
Extracurricular Activities	255,962	256,412	241,716	14,696
Debt Service:				
Principal Retirement	25,000	25,000	25,000	0
Interest and Fiscal Charges	3,400	3,400	3,344	56
<i>Total Expenditures</i>	9,314,865	9,401,217	8,695,388	705,829
<i>Excess of Revenues Under Expenditures</i>	(1,096,842)	(719,744)	(10,422)	709,322
Other Financing Sources (Uses)				
Advances In	100,000	105,000	105,000	0
Advances Out	(100,000)	(34,000)	(15,000)	19,000
Transfers Out	(50,000)	(90,098)	(90,098)	0
<i>Total Other Financing Sources (Uses)</i>	(50,000)	(19,098)	(98)	19,000
<i>Net Change in Fund Balance</i>	(1,146,842)	(738,842)	(10,520)	728,322
<i>Fund Balance Beginning of Year</i>	1,727,451	1,727,451	1,727,451	0
Prior Year Encumbrances Appropriated	159,356	159,356	159,356	0
<i>Fund Balance End of Year</i>	\$739,965	\$1,147,965	\$1,876,287	\$728,322

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Service	All Other Enterprise Funds	Business-Type Activities - Enterprise Funds	
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$0	\$37,894	\$37,894	\$182,749
Cash and Cash Equivalents				
With Fiscal Agents	0	0	0	377,731
Intergovernmental Receivable	12,050	0	12,050	0
Inventory Held for Resale	8,342	0	8,342	0
Materials and Supplies Inventory	3,318	0	3,318	0
<i>Total Current Assets</i>	23,710	37,894	61,604	560,480
<i>Noncurrent Assets</i>				
Depreciable Capital Assets, Net	393,697	0	393,697	0
<i>Total Assets</i>	417,407	37,894	455,301	560,480
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	8,199	510	8,709	0
Accrued Wages Payable	15,673	0	15,673	0
Interfund Payable	0	0	0	190,371
Intergovernmental Payable	13,242	1,724	14,966	0
Compensated Absences Payable	2,403	0	2,403	0
Claims Payable	0	0	0	297,761
<i>Total Current Liabilities</i>	39,517	2,234	41,751	488,132
<i>Long-Term Liabilities (net of current portion)</i>				
Compensated Absences Payable	12,517	0	12,517	0
<i>Total Liabilities</i>	52,034	2,234	54,268	488,132
Net Assets				
Invested in Capital Assets	393,697	0	393,697	0
Unrestricted	(28,324)	35,660	7,336	72,348
<i>Total Net Assets</i>	\$365,373	\$35,660	401,033	\$72,348

Some amounts reported for business-type activities in the statement of net assets are different because their share of internal service fund assets and liabilities are included.

	4,471
<i>Net Assets of Business-type Activities</i>	<u>\$405,504</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006*

	Business-Type Activities - Enterprise Funds			
	Food Service	All Other Enterprise Funds	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Operating Revenues				
Sales	\$231,600	\$54,129	\$285,729	\$0
Charges for Services	0	0	0	1,712,742
Miscellaneous	2,484	0	2,484	0
<i>Total Operating Revenues</i>	<u>234,084</u>	<u>54,129</u>	<u>288,213</u>	<u>1,712,742</u>
Operating Expenses				
Salaries	136,614	18,472	155,086	0
Fringe Benefits	116,450	4,097	120,547	0
Purchased Services	104,901	235	105,136	267,006
Materials and Supplies	0	29,651	29,651	0
Cost of Sales	84,160	0	84,160	0
Depreciation	12,875	0	12,875	0
Claims	0	0	0	839,688
Other	458	0	458	0
<i>Total Operating Expenses</i>	<u>455,458</u>	<u>52,455</u>	<u>507,913</u>	<u>1,106,694</u>
<i>Operating Income (Loss)</i>	<u>(221,374)</u>	<u>1,674</u>	<u>(219,700)</u>	<u>606,048</u>
Non-Operating Revenues				
Donated Commodities	2,005	0	2,005	0
Operating Grants	98,999	0	98,999	0
Investment Earnings	0	0	0	2,541
<i>Total Non-Operating Revenues</i>	<u>101,004</u>	<u>0</u>	<u>101,004</u>	<u>2,541</u>
<i>Income (Loss) Before Transfers</i>	<u>(120,370)</u>	<u>1,674</u>	<u>(118,696)</u>	<u>608,589</u>
Transfers In	94,939	0	94,939	0
<i>Change in Net Assets</i>	<u>(25,431)</u>	<u>1,674</u>	<u>(23,757)</u>	<u>608,589</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>390,804</u>	<u>33,986</u>		<u>(536,241)</u>
<i>Net Assets End of Year</i>	<u><u>\$365,373</u></u>	<u><u>\$35,660</u></u>		<u><u>\$72,348</u></u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal services fund is reported with business-type activities.

37,305

Change in Net Assets of Business-type Activities

\$13,548

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>All Other Enterprise Funds</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$231,600	\$54,223	\$285,823	\$0
Cash Received from Interfund				
Services Provided	0	0	0	1,712,742
Other Cash Receipts	2,484	0	2,484	0
Cash Payments to Employees for Services	(139,851)	(18,472)	(158,323)	0
Cash Payments for Employee Benefits	(116,068)	(2,466)	(118,534)	0
Cash Payments for Goods and Services	(183,092)	(30,304)	(213,396)	(267,006)
Cash Payments for Claims	0	0	0	(868,461)
Other Cash Payments	(458)	0	(458)	0
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(205,385)</u>	<u>2,981</u>	<u>(202,404)</u>	<u>577,275</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	86,949	0	86,949	0
Advances Out	0	0	0	(100,000)
Transfers In	94,939	0	94,939	0
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>181,888</u>	<u>0</u>	<u>181,888</u>	<u>(100,000)</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Capital Acquisitions	(4,841)	0	(4,841)	0
Cash Flows from Investing Activities				
Interest on Investments	0	0	0	2,541
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(28,338)	2,981	(25,357)	479,816
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>28,338</u>	<u>34,913</u>	<u>63,251</u>	<u>80,664</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$0</u>	<u>\$37,894</u>	<u>\$37,894</u>	<u>\$560,480</u>

See accompanying notes to the basic financial statements

(continued)

Fredericktown Local School District

Statement of Cash Flows

Proprietary Funds (continued)

For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>All Other Enterprise Funds</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	(\$221,374)	\$1,674	(\$219,700)	\$606,048
Adjustments:				
Depreciation	12,875	0	12,875	0
Donated Commodities Received During the Year	2,005	0	2,005	0
(Increase) Decrease in Assets:				
Accounts Receivable	0	94	94	0
Materials and Supplies Inventory	(4,235)	0	(4,235)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	8,199	(418)	7,781	0
Accrued Wages	357	0	357	0
Compensated Absences Payable	382	0	382	0
Intergovernmental Payable	(3,594)	1,631	(1,963)	0
Claims Payable	0	0	0	(28,773)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(\$205,385)</u>	<u>\$2,981</u>	<u>(\$202,404)</u>	<u>\$577,275</u>

Non-Cash Noncapital Activities

Federal donated commodities in the amount of \$2,005 were recorded as revenue when received in the food service enterprise fund.

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$30,932</u>
Liabilities	
Due to Students	<u>\$30,932</u>

See accompanying notes to the basic financial statements

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Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 1 - Description of the School District

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 46 classified employees and 83 certificated employees who provide services to 1,186 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

Ohio School Facilities Capital Projects Fund The Ohio school facilities capital projects fund accounts for the proceeds of notes and bonds as well grants for the building and equipping of the classroom facilities.

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

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

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

Food Service Fund This fund accounts for the financial transactions related to the food service operations of the School District.

The School District also has two nonmajor enterprise funds; uniform school supplies which accounts for the sale of school supplies to students and latchkey which provides before and after school care.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance that accounts for medical, surgical and dental claims for School Districts employees.

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 therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. The School District's agency fund accounts for student managed activities.

C. Measurement Focus

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$141,739 which includes \$51,544 assigned from other School District funds.

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

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

F. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories consist of donated food, purchased food and school supplies held for resale and materials and supplies held for consumption.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

G. Deferred Charges

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

H. Bond Premium

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

eliminated in the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$19,588,326 of restricted net assets, none of which are restricted by enabling legislation. Net assets for other purposes include providing early childhood education programs, reducing class-sizes and student activities.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. 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.

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

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

Note 3 – Changes in Accounting Principle

For fiscal year 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	\$288,787
Net Adjustment for Revenue Accruals	(396,978)
Advances In	105,000
Net Adjustment for Expenditure Accruals	145,259
Advances Out	(15,000)
Adjustment for Encumbrances	<u>(137,588)</u>
Budget Basis	<u><u>(\$10,520)</u></u>

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board 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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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.

At June 30, 2006, the School District's self-insurance internal service fund had a balance of \$377,731 with OME-RESA, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,026,356 of the School District's bank balance of \$2,126,356 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2006, the School District only had an investment of \$1,637,155 in STAROhio, the State Treasurer's Investment Pool. This investment has an average maturity of 34.8 days.

Credit Risk Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Morrow Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,135,621 in the general fund, \$194,645 in the bond retirement debt service fund, \$23,118 in the classroom facilities fund, and \$73,634 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$697,411 in the general fund, \$63,241 in the bond retirement debt service fund, and \$36,844 in the permanent improvement capital projects fund.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$102,296,810	83.41%	\$110,569,380	83.16%
Public Utility Personal	4,551,520	3.71	4,493,300	3.38
General Business Personal	15,797,190	12.88	17,898,923	13.46
	<u>\$122,645,520</u>	<u>100.00%</u>	<u>\$132,961,603</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed valuation		\$54.09		\$53.40

Note 7 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

At June 30, 2006 the School District had an intergovernmental receivable of \$6,101 and \$10,000 in the general fund and title II-A special revenue fund, respectively for tuition and grant monies.

At June 30, 2006 the School District had an intergovernmental receivable of \$12,050 in the food service enterprise fund for federal lunch program reimbursements.

In August of 2005, the School District signed an agreement with the Ohio School Facilities Commission to build one school and abate and demolish one school. Under this agreement the State share is \$18,245,977 and the local share is \$7,900,000. This receivable will not be collected within one year.

Note 8 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$408,500	\$0	\$0	\$408,500
Construction in Progress	0	391,963	0	391,963
<i>Total Non-Depreciable Assets</i>	<u>408,500</u>	<u>391,963</u>	<u>0</u>	<u>800,463</u>
<i>Depreciable Assets</i>				
Land Improvements	790,454	174,038	(611,578)	352,914
Building and Improvements	9,988,429	0	0	9,988,429
Furniture and Equipment	1,522,803	92,966	(98,196)	1,517,573
Vehicles	723,641	58,458	0	782,099
<i>Total Depreciable Assets</i>	<u>13,025,327</u>	<u>325,462</u>	<u>(709,774)</u>	<u>12,641,015</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(731,404)	(15,410)	609,545	(137,269)
Building and Improvements	(1,758,397)	(193,358)	0	(1,951,755)
Furniture and Equipment	(1,091,852)	(115,131)	96,176	(1,110,807)
Vehicles	(491,551)	(59,846)	0	(551,397)
<i>Total Accumulated Depreciation</i>	<u>(4,073,204)</u>	<u>(383,745) *</u>	<u>705,721</u>	<u>(3,751,228)</u>
<i>Depreciable Capital Assets, Net</i>	<u>8,952,123</u>	<u>(58,283)</u>	<u>(4,053)</u>	<u>8,889,787</u>
Governmental Activities Capital Assets, Net	<u>\$9,360,623</u>	<u>\$333,680</u>	<u>(\$4,053)</u>	<u>\$9,690,250</u>
Business-Type Activities				
Buildings and Improvements	\$296,017	\$0	\$0	\$296,017
Furniture and Equipment	241,439	4,841	0	246,280
<i>Totals at Historical Cost</i>	<u>537,456</u>	<u>4,841</u>	<u>0</u>	<u>542,297</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(40,888)	(5,617)	0	(46,505)
Furniture and Equipment	(94,837)	(7,258)	0	(102,095)
<i>Total Accumulated Depreciation</i>	<u>(135,725)</u>	<u>(12,875)</u>	<u>0</u>	<u>(148,600)</u>
Business-Type Activities Capital Assets, Net	<u>\$401,731</u>	<u>(\$8,034)</u>	<u>\$0</u>	<u>\$393,697</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$190,355
Special	12,973
Vocational	3,349
Support Services:	
Pupil	6,146
Instructional Staff	9,020
Administration	28,349
Fiscal	2,569
Operation and Maintenance of Plant	28,836
Pupil Transportation	60,046
Extracurricular Activities	42,102
Total Depreciation Expense	<u>\$383,745</u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the School District contracted with Selective Insurance for buildings and contents, liability and fleet insurance.

Type of Coverage	Coverage Amount
Property (Replacement Cost)	\$29,128,088
General Liability, in aggregate	6,000,000
Auto Liability	6,000,000
Sexual Abuse and Molestation	2,000,000
Educator's Legal Liability	1,000,000
Crime	500,000
Umbrella Coverage	5,000,000

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

B. Workers' Compensation

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

C. Self-Insurance

The School District offers medical and surgical insurance to all employees, and dental insurance is offered to all certified employees through a self-insurance internal service fund. The School District is self insured with Self-Fund Plans, Incorporated, serving as the third party administrator. The claims liability of \$297,761 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2005 and 2006 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2005	\$354,964	\$1,201,186	\$1,229,616	\$326,534
2006	326,534	839,688	868,461	297,761

Note 11 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all personnel. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to contracted employees through Self -Funded Plans, Incorporated. The Board pays the cost of the monthly premium, \$3.10 per employee.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 12 - Defined Benefits Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$106,139, \$117,062, and \$112,003, respectively; 68.91 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$525,497, \$506,781, and \$522,332, respectively; 84.33 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,168 made by the School District and \$12,527 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$40,423 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$56,520.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006	Amounts Due in One Year
Governmental Activities					
2001 School Improvement Bonds	\$7,520,000	\$0	\$140,000	\$7,380,000	\$175,000
Unamortized Premium	88,026	0	3,746	84,280	3,746
1997 Energy Conservation Bonds	75,000	0	25,000	50,000	25,000
Compensated Absences	624,289	29,951	102,883	551,357	88,796
Total Governmental Activities					
Long-Term Liabilities	<u>\$8,307,315</u>	<u>\$29,951</u>	<u>\$271,629</u>	<u>\$8,065,637</u>	<u>\$292,542</u>
Business-Type Activities					
Compensated Absences	<u>\$14,538</u>	<u>\$382</u>	<u>\$0</u>	<u>\$14,920</u>	<u>\$2,403</u>

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

All general obligation bonds will be paid from property taxes. Compensated absences will be paid from the general fund and from the food service fund.

The School District's overall debt margin was \$6,477,698 with an unvoted debt margin of \$131,576 at June 30, 2006. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
2007	\$175,000	\$381,839	\$25,000	\$2,006
2008	185,000	374,276	25,000	669
2009	190,000	366,260	0	0
2010	200,000	357,775	0	0
2011	205,000	348,660	0	0
2012-2016	1,220,000	1,559,722	0	0
2017-2021	1,605,000	1,154,226	0	0
2022-2026	2,080,000	676,145	0	0
2027-2029	1,520,000	121,420	0	0
Totals	<u>\$7,380,000</u>	<u>\$5,340,323</u>	<u>\$50,000</u>	<u>\$2,675</u>

Note 15 - Jointly Governed Organization and Public Entity Risk Pool

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$21,356 to TRECA during fiscal year 2006 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Insurance Purchasing Pool

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 16 - Set-Asides

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balances as of June 30, 2005	(\$153,950)	(\$418,267)
Current Year Set-aside Requirement	156,635	156,635
Current Year Offsets	0	262,169
Qualifying Disbursements	<u>170,994</u>	<u>0</u>
Total	<u>(\$168,309)</u>	<u>(\$523,801)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$168,309)</u>	<u>(\$523,801)</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>

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

Note 17 – Interfund Balances and Transfers

A. Interfund Balances

On the fund financial statements the general fund reported an interfund receivable at June 30, 2006 of \$10,000. The Project Lead the Way special revenue fund had an interfund payable of \$10,000. An advance was necessary to pay for expenses until grant monies are received.

On the fund financial statements the general fund reported an interfund receivable at June 30, 2006 of \$190,371. The Self-Insurance internal service fund had an interfund payable of \$190,371. An advance was necessary to pay for insurance expenses until payment was received.

B. Interfund Transfers

A transfer of \$94,939 was made from the general fund into the food service fund to provide for the payment of expenditures and maintain the food service operations for the students.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 18 – Compliance and Accountability

A. Compliance

Contrary to Ohio Revised Code Section 5705.41(B) the following funds had expenditures plus encumbrances in excess of appropriations at June 30, 2006.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
District Managed Activities	\$168,705	\$175,534	(\$6,829)
Schoolnet Professional Development	4,614	5,114	(500)
Capital Projects Fund:			
Ohio School Facilities Commission Fund	5,000	1,125,706	(1,120,706)
Enterprise Fund:			
Food Service Fund	429,388	443,788	(14,400)

Although these violations were not corrected by fiscal year-end, management has indicated that appropriations will be more closely monitored to ensure no future violations will occur.

B. Accountability

The following funds had deficit fund balances at June 30, 2006:

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
Title VI-B	\$18,116
Project Lead the Way	2,500
Title VI-R	1,630

The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

Note 19 – Public Utility Property Tax Refund

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of that refund is estimated to be approximately \$2,577 per year. A portion of the refund may be recovered from additional State entitlement payments.

Fredericktown Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 20 – Subsequent Events

On December 13, 2006, the School District authorized lease-purchase financing in an amount not to exceed \$1,535,000 in connection with the Ohio Association of School Business Officials expanded asset pooled financing program to acquire, construct, improve and furnish school facilities.

On December 28, 2006 the School District refunded \$4,295,000 of the outstanding 2001 bond issue with the proceeds from the refunding bonds, series 2006. The par value of the refunding bonds was \$4,290,000.

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**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$ -	\$ 10,976	\$ -	\$ 10,976
Child Nutrition Cluster National School Lunch Program	LL-P4 2006	10.555	80,469	-	80,469	-
Breakfast Program	05PU-2006	10.553	1,027	-	1,027	-
Special Milk Program	02PU-2006	10.556	2,554	-	2,554	-
Total Child Nutrition Cluster			84,050	-	84,050	-
Total U.S. Department of Agriculture			84,050	10,976	84,050	10,976
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2006	84.010	80,250	-	80,250	-
Special Education Grants to States (IDEA Part B)	6B-SF 2005 6B-SF 2006	84.027	-	-	203	-
Total Special Education Grants to State			282,500	-	282,500	-
Vocational Education - Basic Grants to States	20A0-2005 20A0-2006 20A0-2005	84.048	-	-	3,448	-
Total Vocationals Education - Basic Grants to States			15,000	-	15,000	-
			10,000	-	11,625	-
			25,000	-	30,073	-
Safe and Drug Free Schools and Community	DR-S1 2005 DR-S1 2006	84.186	-	-	1,152	-
Total Safe and Drug Free Schools and Community			4,415	-	4,415	-
			4,415	-	5,567	-
Innovative Education Program Strategies	C2-S1 2006	84.298	3,153	-	3,153	-
Title II-D Education Technology State Grant	TJ-S1 2005 TJ-S1 2006	84.318	-	-	50	-
Total Title II-D Education Technology State Grant			1,460	-	1,460	-
			1,460	-	1,510	-
Title II-A Improving Teacher Quality	TR-S1 2005 TR-S1 2005	84.367	3,895	-	6,130	-
Total Title II-A Improving Teacher Quality			66,257	-	64,144	-
			70,152	-	70,274	-
Total U.S. Department of Education			466,930	-	473,530	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities:</i>						
Medical Assistance Program - CAFS	N/A	93.778	20,755	-	20,755	-
Medical Assistanc Program - SCHIP	N/A	93.767	1,816	-	1,816	-
Total U.S. Department of Health and Human Services			22,571	-	22,571	-
Total Federal Awards			\$ 573,551	\$ 10,976	\$ 580,151	\$ 10,976

The accompanying notes to this schedule are an integral part of this schedule.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--CHILD NUTRITION CLUSTER

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

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 20, 2007, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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Fredericktown Local School District
Knox County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

February 20, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fredericktown Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Fredericktown Local School District, Knox County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program 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 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Mary Taylor, CPA
Auditor of State

February 20, 2007

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2006-001

Ohio Revised Code Section 5705.41(B) states in part that no subdivision or taxing unit is to make any expenditure of money unless it has been appropriated as provided in such chapter. At June 30, 2006, the District had expenditures plus outstanding encumbrances exceeding appropriations within the following funds:

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)

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

FINDING NUMBER 2006-001 (Continued)

Fund	Appropriations	Budgetary Expenditures	Variance
Food Services (006)	\$ 429,388	\$ 443,788	(\$ 14,400)
Classroom Facilities (010)	\$ 5,000	\$ 1,125,706	(\$ 1,120,706)
District Managed Activities (300)	\$168,702	\$175,531	(\$6,829)
School Net Professional Development (452)	\$ 4,614	\$ 5,114	(\$ 500)

The District Treasurer should deny payment requests exceeding appropriations and periodically compare actual expenditures plus outstanding encumbrances to appropriations to avoid potential overspending. In addition, the District Treasurer may request the Board of Education to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response: Management has indicated that appropriations will be more closely monitored to ensure no future violations will occur.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 27, 2007