



Mary Taylor, CPA
Auditor of State

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

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MERCER COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, (the School District), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, as of June 30, 2007 and 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, 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.

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

Mary Taylor, CPA
Auditor of State

March 6, 2008

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)**

The discussion and analysis of Fort Recovery Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal years ended June 30, 2007 and 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 financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- For governmental activities, net assets increased \$296,924, which represents a 12 percent increase from 2006. Net assets of business-type activities increased \$7,027 or 9 percent from 2006.
- General receipts accounted for \$7,437,636 in receipts or 85 percent of all governmental receipts. Program specific receipts in the form of charges for services, operating grants and contributions and interest and capital grants and contributions accounted for \$1,293,640 or 15 percent of total governmental receipts of \$8,731,276.
- The School District had \$8,434,352 in disbursements related to governmental activities; only \$1,293,640 of these disbursements was offset by program specific charges for services, grants or contributions. General receipts (primarily taxes and unrestricted state aid) of \$7,437,636 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,732,402 in receipts and \$7,282,304 in disbursements. The General Fund's balance increased \$184,197 from 2006.
- Net assets for business-type activities increased \$7,027 due to an increase in tuition and fees receipts for the preschool program. Total business-type disbursements were \$371,542. \$373,149 received in program receipts covered these disbursements.

Key financial highlights for 2006 are as follows:

- For governmental activities, net assets increased \$210,581, which represents a 9 percent increase from 2005. Net assets of business-type activities increased \$13,279 or 19 percent from 2005.
- General receipts accounted for \$6,889,957 in receipts or 85 percent of all governmental receipts. Program specific receipts in the form of charges for services, operating grants and contributions and interest and capital grants and contributions accounted for \$1,262,088 or 15 percent of total governmental receipts of \$8,152,045.
- The School District had \$7,941,464 in disbursements related to governmental activities; only \$1,262,088 of these disbursements was offset by program specific charges for services, grants or contributions. General receipts (primarily taxes and unrestricted state aid) of \$6,889,957 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,087,614 in receipts and \$6,856,017 in disbursements. The General Fund's balance increased \$141,919 from 2005.
- Net assets for business-type activities increased \$13,279 due primarily to an increase in intergovernmental receipts. Total business-type disbursements were \$355,457. \$363,530 received in program receipts covered these disbursements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

Using this Annual Report

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

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

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

Basis of Accounting

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities answer this question.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental and business-type activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. Business-type activities are provided on a charge for goods or services basis to recover all of the disbursements of the good or services provided. The School District's business-type activities include food service operations and the preschool program.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has two enterprise funds, the Food Service Fund and the Preschool Fund.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets comparing fiscal years 2007, 2006, and 2005 on a cash basis:

**(Table 1)
Net Assets**

	Governmental Activities			Business-Type Activities		
	2005	2006	2007	2005	2006	2007
Assets						
Equity in Pooled Cash and Cash Equivalents	<u>\$2,323,726</u>	<u>\$2,534,307</u>	<u>\$2,831,231</u>	<u>\$68,836</u>	<u>\$82,115</u>	<u>\$89,142</u>
Net Assets						
Restricted for:						
Capital Projects	8,445	4,495	45,215			
Debt Service	155,811	125,792	160,796			
Other Purposes	186,197	139,253	178,776			
Unrestricted	<u>1,973,273</u>	<u>2,264,767</u>	<u>2,446,444</u>	<u>68,836</u>	<u>82,115</u>	<u>89,142</u>
Total Net Assets	<u>\$2,323,726</u>	<u>\$2,534,307</u>	<u>\$2,831,231</u>	<u>\$68,836</u>	<u>\$82,115</u>	<u>\$89,142</u>

As mentioned previously, net assets of governmental activities increased \$296,924 or 12 percent during fiscal year 2007. The primary reasons contributing to the increase in revenues are for open enrollment, property taxes, income taxes and unrestricted grants-in-aid. While net assets of governmental activities increased \$210,581 or 9 percent during fiscal year 2006. The primary reasons contributing to the increase in cash balance is due to increased revenues for open enrollment, income taxes and unrestricted grants-in-aid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets comparing fiscal years 2007, 2006 and 2005.

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

	Governmental Activities 2005	Governmental Activities 2006	Governmental Activities 2007	Business- Type Activities 2005	Business- Type Activities 2006	Business- Type Activities 2007
Receipts:						
Program Receipts:						
Charges for Services	\$ 382,799	\$ 374,983	\$ 467,776	\$309,563	\$309,593	\$319,505
Operating Grants and Contributions	838,487	872,495	817,857	45,857	53,937	53,644
Capital Grants and Contributions	18,404	14,610	8,007			
Total Program Receipts	1,239,690	1,262,088	1,293,640	355,420	363,530	373,149
General Receipts:						
Property and Income Taxes	2,542,482	2,521,079	2,907,404			
Grants and Entitlements Not Restricted to Specific Programs	4,007,750	4,256,555	4,342,720			
Sale of Assets, Interest & Miscellaneous	125,582	112,323	187,512	2,544	5,206	5,420
Total General Receipts	6,675,814	6,889,957	7,437,636	2,544	5,206	5,420
Total Receipts	7,915,504	8,152,045	8,731,276	357,964	368,736	378,569
Disbursements:						
Instruction	4,511,154	4,485,698	4,960,906			
Support Services	2,774,870	2,929,749	2,920,310			
Operation of Non-Instructional Services						
Extracurricular Activities	287,025	264,078	291,841			
Capital Outlay	360					
Debt Service	282,509	261,939	261,295			
Food Services				308,778	310,168	326,622
Preschool Program				60,459	45,289	44,920
Total Disbursements	7,855,918	7,941,464	8,434,352	369,237	355,457	371,542
Increase in Net Assets	59,586	210,581	296,924	(11,273)	13,279	7,027
Net Assets, Beginning of Year	2,264,140	2,323,726	2,534,307	80,109	68,836	82,115
Net Assets, End of Year	\$2,323,726	\$2,534,307	\$2,831,231	\$ 68,836	\$ 82,115	\$ 89,142

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

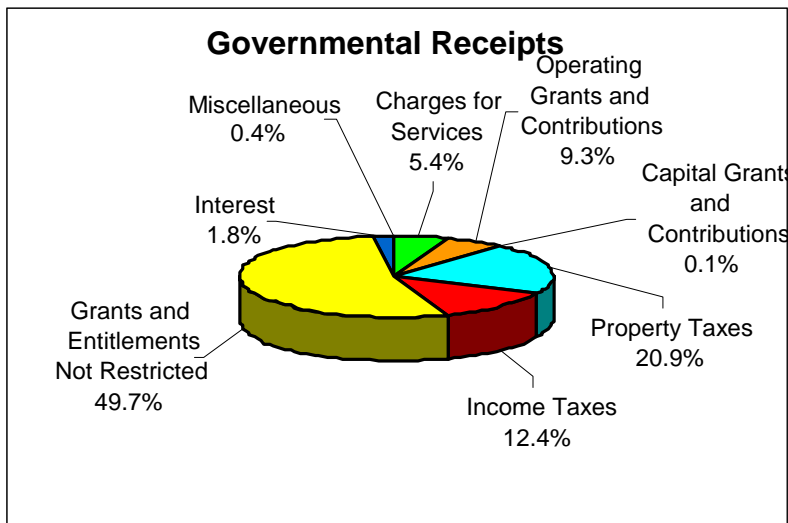
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

Governmental Activities

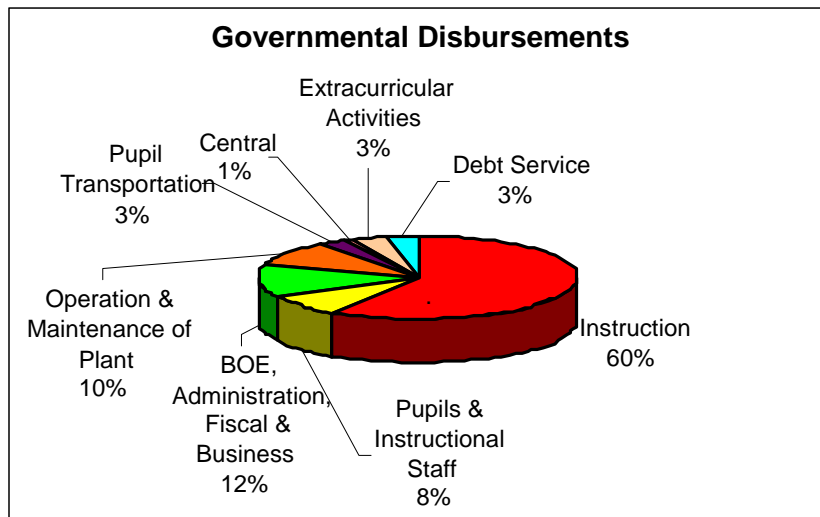
Fiscal Year 2007

Several sources fund the School District's governmental activities with the School Foundation being the largest contributor. Property and income taxes generated \$2.9 million. The combination of taxes and intergovernmental funding provide 83 percent of governmental funding. The School District monitors both of these sources very closely for fluctuations.

Disbursements in governmental funds increased 6 percent over 2006. The primary increase was in instruction disbursements caused by increases in salaries and an overall increase of almost 15 percent in insurance costs. This is due to a 14 percent increase in medical insurance, and an 11 percent increase in dental insurance, as of January 1, 2007.



Instruction comprises 60% of the School District's disbursements. Support services make up 35% of disbursements.



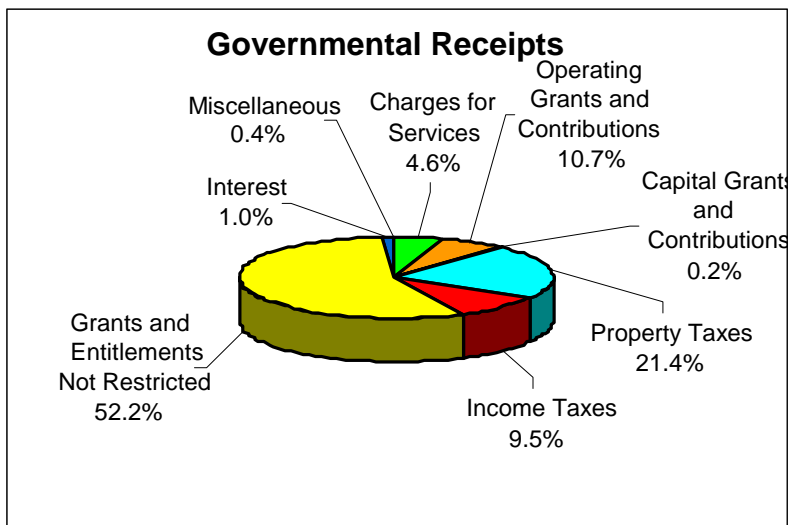
**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

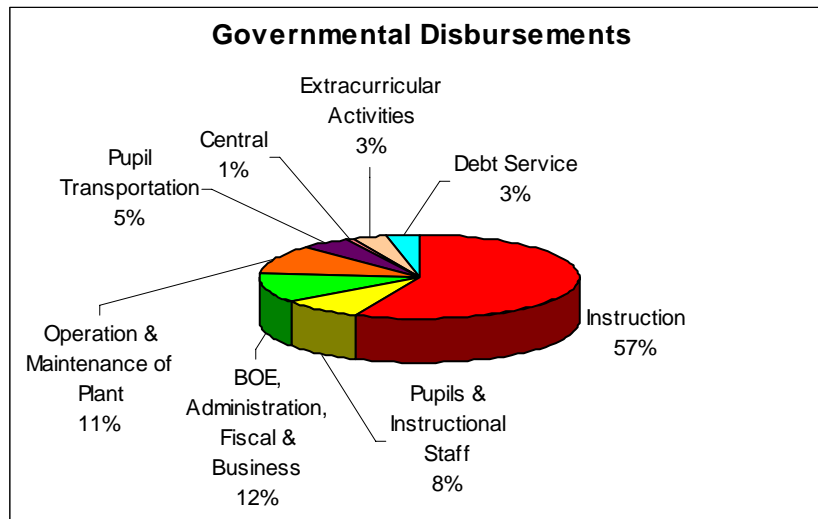
Fiscal Year 2006

Several sources fund the School District's governmental activities with the School Foundation being the largest contributor. Property and income taxes generated \$2.5 million. The combination of taxes and intergovernmental funding provide 83 percent of governmental funding. The School District monitors both of these sources very closely for fluctuations.

Disbursements in governmental funds increased only 1% over 2005. During the fiscal year, the School District's pupil transportation costs increased \$109,763 as a result of bus purchases made during fiscal year 2006.



Instruction comprises 57% of the School District's disbursements. Support services make up 37% of disbursements.



**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

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

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

Fiscal Year 2007 Compared to Fiscal Year 2006

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2006	Net Cost Of Services 2006	Total Cost Of Services 2007	Net Cost Of Services 2007
Instruction	\$4,485,698	(\$3,521,769)	\$4,960,906	(\$3,958,737)
Support Services:				
Pupils and Instructional Staff	665,145	(500,321)	716,750	(560,721)
Board of Education, Administration, Fiscal and business	932,862	(920,779)	1,015,854	(1,009,574)
Operation and Maintenance of Plant	854,844	(844,847)	850,429	(848,679)
Pupil Transportation	409,595	(405,225)	269,477	(261,470)
Central	67,303	(67,303)	67,800	(67,800)
Extracurricular Activities	264,078	(157,193)	291,841	(172,436)
Debt Service	261,939	(261,939)	261,295	(261,295)
Total Disbursements	\$7,941,464	(\$6,679,376)	\$8,434,352	(\$7,140,712)

Instruction and student support services comprise approximately 68 percent of governmental program disbursements in fiscal year 2007. Board of Education, administration, fiscal and business are approximately 12 percent in fiscal year 2007. Interest disbursement is attributable to the outstanding bonds; fiscal disbursements include payments to the County Auditors for administrative fees and other administrative services provided to the School District. Pupil transportation and the operation of facilities accounts for approximately 13 percent of governmental program disbursements for fiscal year 2007.

The dependence upon property tax receipts and income tax receipts is apparent as over 84 percent of governmental activities are supported through these general receipts.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(Continued)**

Fiscal Year 2006 Compared to Fiscal Year 2005

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

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost Of Services 2005	Total Cost Of Services 2006	Net Cost Of Services 200
Instruction	\$4,511,154	(\$3,585,197)	\$4,485,698	(\$3,521,769)
Support Services:				
Pupils and Instructional Staff	672,593	(525,686)	665,145	(500,321)
Board of Education, Administration, Fiscal and business	876,329	(869,029)	932,862	(920,779)
Operation and Maintenance of Plant	841,429	(836,129)	854,844	(844,847)
Pupil Transportation	299,832	(276,715)	409,595	(405,225)
Central	84,687	(84,687)	67,303	(67,303)
Operation of Non-Instructional Services		3,871		
Extracurricular Activities	287,025	(184,822)	264,078	(157,193)
Capital Outlay	360	(300)		
Debt Service	282,509	(257,534)	261,939	(261,939)
Total Disbursements	<u>\$7,855,918</u>	<u>(\$6,616,228)</u>	<u>\$7,941,464</u>	<u>(\$6,679,376)</u>

Instruction and student support services comprise approximately 65 percent of governmental program disbursements in fiscal year 2006 and 2005. Board of Education, administration, fiscal and business are approximately 12 percent in fiscal year 2006. Interest disbursement is attributable to the outstanding bonds; fiscal disbursements include payments to the County Auditors for administrative fees and other administrative services provided to the School District. Pupil transportation, and the operation of facilities, account for approximately 16 percent of governmental program disbursements for fiscal year 2006.

The dependence upon property tax receipts and income tax receipts is apparent as over 84 percent of governmental activities are supported through these general receipts.

Business-Type Activities

The School District's most significant business-type activity includes the operation of the food service program. Business-type activities had an increase of net assets of \$7,027 during fiscal year 2007 and \$13,279 during fiscal year 2006. The School District continues to monitor the charges for these services to ensure that costs are covered.

The School District's Funds

During fiscal year 2007, total governmental funds had receipts of \$8,150,613 and disbursements of \$8,434,352. The General Fund contributed to the increase in fund balances. The primary reasons contributing to the increase is due to an increase in revenues for open enrollment, property taxes, income taxes and unrestricted grants-in-aid.

During fiscal year 2006, total governmental funds had receipts of \$8,152,045 and disbursements of \$7,941,464. The General Fund contributed to the increase in fund balances. The increase in open enrollment receipts, income tax receipts, and unrestricted grants-in-aid attributed to the General Fund balance increase.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
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(Continued)**

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the School District did modify its General Fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For fiscal year 2007, General Fund budget basis receipts were \$88,505 over the final budget estimated receipts and \$668,275 over original budget estimated receipts. Most of this increase was for property and income taxes and intergovernmental receipts, specifically unrestricted grants-in-aid from the foundation program.

During the course of fiscal year 2006, the School District did modify its General Fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For fiscal year 2006, General Fund budget basis receipts were \$47,947 over the final budget estimated receipts and \$305,947 over original budget estimated receipts. Most of this increase was for intergovernmental receipts, specifically unrestricted grants-in-aid through the state foundation program.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2007, the School District's outstanding debt included \$2,550,141 in general obligation bonds issued for improvements to buildings and structures. In addition, the School District had \$8,958 in loans outstanding to the Environmental Protection Agency for asbestos removal. For further information regarding the School District's debt, refer to Note 10 to the basic financial statements.

At June 30, 2006, the School District's outstanding debt included \$2,681,194 in general obligation bonds issued for improvements to buildings and structures. In addition, the School District had \$14,330 in loans outstanding to the Environmental Protection Agency for asbestos removal. For further information regarding the School District's debt, refer to Note 10 to the basic financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007
(UNAUDITED)
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Current Issues

Fort Recovery Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on the state school foundation program. However, the School District's residents did pass an additional .5 percent continuing school district income tax issue in May 2005 for general operating purposes.

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

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

The Fort Recovery Local School District does not anticipate any meaningful growth in State funding, if any at all. This will have a significant impact on the School District.

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

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

Contacting the School District's Financial Management

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

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**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$2,831,231	\$89,142	\$2,920,373
Total Assets	<u>2,831,231</u>	<u>89,142</u>	<u>2,920,373</u>
Net Assets			
Restricted for:			
Capital Projects	45,215		45,215
Debt Service	160,796		160,796
Other Purposes	178,776		178,776
Unrestricted	<u>2,446,444</u>	<u>89,142</u>	<u>2,535,586</u>
Total Net Assets	<u>\$2,831,231</u>	<u>\$89,142</u>	<u>\$2,920,373</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	
Governmental Activities:				
Instruction				
Regular	\$3,529,274	\$238,614	\$47,800	
Special	1,143,831		606,427	
Vocational	270,095		109,328	
Other	17,706			
Support Services				
Pupil	299,645	108,009	16,375	
Instructional Staff	417,105	60	31,585	
Board of Education	32,619			
Administration	775,438	938	5,342	
Fiscal	201,416			
Business	6,381			
Operation and Maintenance of Plant	850,429	1,750		
Pupil Transportation	269,477			\$8,007
Central	67,800			
Extracurricular Activities	291,841	118,405	1,000	
Debt Service	261,295			
Total Governmental Activities	<u>8,434,352</u>	<u>467,776</u>	<u>817,857</u>	<u>8,007</u>
Business-Type Activities:				
Food Services	326,622	264,582	53,644	
Preschool Program	44,920	54,923		
Total Business-Type Activities	<u>371,542</u>	<u>319,505</u>	<u>53,644</u>	
Totals	<u>\$8,805,894</u>	<u>\$787,281</u>	<u>\$871,501</u>	<u>\$8,007</u>

General Receipts

Property Taxes Levied for:

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

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$3,242,860)		(\$3,242,860)
(537,404)		(537,404)
(160,767)		(160,767)
(17,706)		(17,706)
(175,261)		(175,261)
(385,460)		(385,460)
(32,619)		(32,619)
(769,158)		(769,158)
(201,416)		(201,416)
(6,381)		(6,381)
(848,679)		(848,679)
(261,470)		(261,470)
(67,800)		(67,800)
(172,436)		(172,436)
(261,295)		(261,295)
<u>(7,140,712)</u>		<u>(7,140,712)</u>
	(\$8,396)	(8,396)
	10,003	10,003
	<u>1,607</u>	<u>1,607</u>
<u>(7,140,712)</u>	1,607	<u>(7,139,105)</u>
1,570,688		1,570,688
221,792		221,792
34,540		34,540
1,080,384		1,080,384
4,342,720		4,342,720
155,056	3,158	158,214
32,456	2,262	34,718
<u>7,437,636</u>	<u>5,420</u>	<u>7,443,056</u>
296,924	7,027	303,951
<u>2,534,307</u>	<u>82,115</u>	<u>2,616,422</u>
<u>\$2,831,231</u>	<u>\$89,142</u>	<u>\$2,920,373</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$2,299,389	\$531,842	\$2,831,231
Total Assets	<u>2,299,389</u>	<u>531,842</u>	<u>2,831,231</u>
Fund Balances			
Reserved for Encumbrances	217,917	95,006	312,923
Unreserved:			
Designated for Termination Benefits		147,055	147,055
Undesignated, Reported in:			
General Fund	2,081,472		2,081,472
Special Revenue Funds		120,742	120,742
Debt Service Fund		160,630	160,630
Capital Projects Funds		8,409	8,409
Total Fund Balances	<u>\$2,299,389</u>	<u>\$531,842</u>	<u>\$2,831,231</u>

See accompanying notes to the financial statements

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$1,570,688	\$256,332	\$1,827,020
Income Taxes	1,080,384		1,080,384
Intergovernmental	4,697,780	455,873	5,153,653
Interest	155,056		155,056
Tuition and Fees	193,819		193,819
Extracurricular Activities		253,498	253,498
Miscellaneous	34,675	32,914	67,589
Total Receipts	<u>7,732,402</u>	<u>998,617</u>	<u>8,731,019</u>
Disbursements			
Current:			
Instruction			
Regular	3,396,710	132,564	3,529,274
Special	814,905	328,926	1,143,831
Vocational	266,095	4,000	270,095
Other	17,706		17,706
Support Services			
Pupil	176,267	123,378	299,645
Instructional Staff	378,418	38,687	417,105
Board of Education	32,619		32,619
Administration	683,510	91,928	775,438
Fiscal	195,925	5,491	201,416
Business	6,381		6,381
Operation and Maintenance of Plant	833,236	17,193	850,429
Pupil Transportation	225,197	44,280	269,477
Central	67,800		67,800
Extracurricular Activities	181,803	110,038	291,841
Debt Service			
Principal Retirement	5,732	150,000	155,732
Interest		105,563	105,563
Total Disbursements	<u>7,282,304</u>	<u>1,152,048</u>	<u>8,434,352</u>
Excess of Receipts Over / (Under) Disbursements	<u>450,098</u>	<u>(153,431)</u>	<u>296,667</u>
Other Financing Sources (Uses)			
Operating Transfers - In		258,758	258,758
Advances - In	28,000	32,400	60,400
Refund of Prior Year Expenditures	257		257
Operating Transfers - Out	(258,758)		(258,758)
Advances - Out	(35,400)	(25,000)	(60,400)
Total Other Financing (Uses) Sources	<u>(265,901)</u>	<u>266,158</u>	<u>257</u>
Net Change in Fund Balances	184,197	112,727	296,924
Fund Balances Beginning	<u>2,115,192</u>	<u>419,115</u>	<u>2,534,307</u>
Fund Balances End of Year	<u>\$2,299,389</u>	<u>\$531,842</u>	<u>\$2,831,231</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$1,404,367	\$1,565,367	\$1,570,688	\$5,321
Income Taxes	998,052	1,078,834	1,080,384	1,550
Intergovernmental	4,419,174	4,658,545	4,697,780	39,235
Interest	78,534	144,534	155,056	10,522
Tuition and Fees	142,341	172,341	193,819	21,478
Miscellaneous	21,659	24,276	34,675	10,399
Total Receipts	<u>7,064,127</u>	<u>7,643,897</u>	<u>7,732,402</u>	<u>88,505</u>
Disbursements				
Current:				
Instruction				
Regular	3,252,923	3,497,123	3,488,207	8,916
Special	658,245	828,445	817,375	11,070
Vocational	232,342	269,142	267,943	1,199
Other	27,121	29,121	17,806	11,315
Support Services				
Pupil	157,376	187,876	176,267	11,609
Instructional Staff	353,981	385,981	385,209	772
Board of Education	23,438	36,938	35,803	1,135
Administration	657,495	721,495	699,953	21,542
Fiscal	207,994	214,994	206,482	8,512
Business	8,010	9,110	9,101	9
Operation and Maintenance of Plant	846,614	908,114	873,792	34,322
Pupil Transportation	370,682	271,182	265,637	5,545
Central	68,179	81,479	68,786	12,693
Extracurricular Activities	166,934	185,134	182,128	3,006
Debt Service				
Principal Retirement	10,104	10,104	5,732	4,372
Total Disbursements	<u>7,041,438</u>	<u>7,636,238</u>	<u>7,500,221</u>	<u>136,017</u>
Excess of Receipts Over (Under) Disbursements	<u>22,689</u>	<u>7,659</u>	<u>232,181</u>	<u>224,522</u>
Other Financing Sources (Uses)				
Proceeds of Sale of Fixed Assets	800	800		(800)
Advances - In			28,000	28,000
Refund of Prior Year Expenditures			257	257
Operating Transfers - Out	(98,015)	(258,758)	(258,758)	
Advances - Out	(35,400)	(42,800)	(35,400)	7,400
Total Other Financing Sources (Uses)	<u>(132,615)</u>	<u>(300,758)</u>	<u>(265,901)</u>	<u>34,857</u>
Net Change in Fund Balance	(109,926)	(293,099)	(33,720)	259,379
Fund Balance Beginning of Year	1,930,014	1,930,014	1,930,014	
Prior Year Encumbrances Appropriated	<u>185,178</u>	<u>185,178</u>	<u>185,178</u>	
Fund Balance End of Year	<u>\$2,005,266</u>	<u>\$1,822,093</u>	<u>\$2,081,472</u>	<u>\$259,379</u>

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2007

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets	
Cash and Cash Equivalents	\$89,142
Total Assets	<u>89,142</u>
Net Assets	
Unrestricted	89,142
Total Net Assets	<u>\$89,142</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, EXPENSES AND CHANGES
IN FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Business-Type Activity
	Enterprise
Operating Receipts	
Charges for Services	\$264,582
Tuition & Fees	54,923
Total Operating Receipts	319,505
Operating Expenses	
Salaries	162,792
Fringe Benefits	39,595
Purchased Services	3,413
Materials and Supplies	162,190
Capital Outlay	2,985
Other	567
Total Operating Expenses	371,542
Operating Loss	(52,037)
Non-Operating Receipts	
Federal and State Subsidies	53,644
Interest	3,158
Other Non-Operating Receipts	2,262
Total Non-Operating Receipts	59,064
Change in Net Assets	7,027
Net Assets Beginning of Year	82,115
Net Assets End of Year	\$89,142

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2007**

	<u>Agency</u>
Assets	
Cash and Cash Equivalents	\$39,494
Total Assets	<u>39,494</u>
Net Assets	
Held in Trust for Students	36,723
Held in Trust for Employees	<u>2,771</u>
Total Net Assets	<u>\$39,494</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$2,534,307	\$82,115	\$2,616,422
Total Assets	<u>2,534,307</u>	<u>82,115</u>	<u>2,616,422</u>
Net Assets			
Restricted for:			
Capital Projects	4,495		4,495
Debt Service	125,792		125,792
Other Purposes	139,253		139,253
Unrestricted	<u>2,264,767</u>	<u>82,115</u>	<u>2,346,882</u>
Total Net Assets	<u>\$2,534,307</u>	<u>\$82,115</u>	<u>\$2,616,422</u>

See accompanying notes to the financial statements.

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**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	
Governmental Activities:				
Instruction				
Regular	\$3,233,006	\$174,380	\$30,763	\$10,240
Special	990,840		641,244	
Vocational	235,332	493	106,809	
Other	26,520			
Support Services				
Pupil	251,249	77,975	18,780	
Instructional Staff	413,896	5,278	62,791	
Board of Education	22,945			
Administration	663,330	912	11,171	
Fiscal	239,607			
Business	6,980			
Operation and Maintenance of Plant	854,844	9,060	937	
Pupil Transportation	409,595			4,370
Central	67,303			
Extracurricular Activities	264,078	106,885		
Debt Service	261,939			
Total Governmental Activities	<u>7,941,464</u>	<u>374,983</u>	<u>872,495</u>	<u>14,610</u>
Business-Type Activities:				
Food Services	310,168	263,278	53,937	
Preschool Program	45,289	46,315		
Total Business-Type Activities	<u>355,457</u>	<u>309,593</u>	<u>53,937</u>	
Totals	<u><u>\$8,296,921</u></u>	<u><u>\$684,576</u></u>	<u><u>\$926,432</u></u>	<u><u>\$14,610</u></u>

General Receipts

Property Taxes Levied for:

- General Purposes
- Debt Service
- Permanent Improvements
- Classroom Facilities & Maintenance
- Income Taxes
- Grants and Entitlements not Restricted to Specific Programs
- Sale of Fixed Assets
- Interest
- Miscellaneous
- Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,017,623)		(\$3,017,623)
(349,596)		(349,596)
(128,030)		(128,030)
(26,520)		(26,520)
(154,494)		(154,494)
(345,827)		(345,827)
(22,945)		(22,945)
(651,247)		(651,247)
(239,607)		(239,607)
(6,980)		(6,980)
(844,847)		(844,847)
(405,225)		(405,225)
(67,303)		(67,303)
(157,193)		(157,193)
(261,939)		(261,939)
<u>(6,679,376)</u>		<u>(6,679,376)</u>
	\$7,047	7,047
	1,026	1,026
	<u>8,073</u>	<u>8,073</u>
<u>(6,679,376)</u>	8,073	<u>(6,671,303)</u>
1,441,670		1,441,670
202,651		202,651
69,463		69,463
32,823		32,823
774,472		774,472
4,256,555		4,256,555
1,000		1,000
81,746	2,225	83,971
29,577	2,981	32,558
<u>6,889,957</u>	<u>5,206</u>	<u>6,895,163</u>
210,581	13,279	223,860
2,323,726	68,836	2,392,562
<u>\$2,534,307</u>	<u>\$82,115</u>	<u>\$2,616,422</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$2,115,192	\$419,115	\$2,534,307
Total Assets	<u>2,115,192</u>	<u>419,115</u>	<u>2,534,307</u>
Fund Balances			
Reserved for Encumbrances	185,178	64,684	249,862
Unreserved:			
Designated for Termination Benefits		149,575	149,575
Undesignated, Reported in:			
General Fund	1,930,014		1,930,014
Special Revenue Funds		74,933	74,933
Debt Service Fund		125,428	125,428
Capital Projects Funds		4,495	4,495
Total Fund Balances	<u>\$2,115,192</u>	<u>\$419,115</u>	<u>\$2,534,307</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General Fund	Governmental Funds	Governmental Funds
Receipts			
Property Taxes	\$1,441,670	\$304,937	\$1,746,607
Income Taxes	774,472		774,472
Intergovernmental	4,615,724	506,857	5,122,581
Interest	81,746		81,746
Tuition and Fees	142,341		142,341
Extracurricular Activities		218,730	218,730
Miscellaneous	31,661	32,475	64,136
Total Receipts	7,087,614	1,062,999	8,150,613
Disbursements			
Current:			
Instruction			
Regular	3,171,053	61,953	3,233,006
Special	656,016	334,824	990,840
Vocational	230,147	5,185	235,332
Other	26,520		26,520
Support Services			
Pupil	157,375	93,874	251,249
Instructional Staff	347,856	66,040	413,896
Board of Education	22,945		22,945
Administration	654,295	9,035	663,330
Fiscal	201,803	37,804	239,607
Business	6,980		6,980
Operation and Maintenance of Plant	793,173	61,671	854,844
Pupil Transportation	343,899	65,696	409,595
Central	67,303		67,303
Extracurricular Activities	166,548	97,530	264,078
Debt Service			
Principal Retirement	10,104	140,000	150,104
Interest		111,835	111,835
Total Disbursements	6,856,017	1,085,447	7,941,464
Excess of Receipts Over / (Under) Disbursements	231,597	(22,448)	209,149
Other Financing Sources (Uses)			
Proceeds of Sale of Capital Assets	800	200	1,000
Operating Transfers - In		98,015	98,015
Advances - In	42,600	31,900	74,500
Refund of Prior Year Expenditures	337	95	432
Operating Transfers - Out	(98,015)		(98,015)
Advances - Out	(35,400)	(39,100)	(74,500)
Total Other Financing (Uses) Sources	(89,678)	91,110	1,432
Net Change in Fund Balances	141,919	68,662	210,581
Fund Balances Beginning	1,973,273	350,453	2,323,726
Fund Balances End of Year	\$2,115,192	\$419,115	\$2,534,307

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$1,416,123	\$1,414,123	\$1,441,670	\$27,547
Income Taxes	699,363	769,363	774,472	5,109
Intergovernmental	4,424,027	4,584,027	4,615,724	31,697
Interest	42,628	72,628	81,746	9,118
Tuition and Fees	173,674	173,648	142,341	(31,307)
Miscellaneous	25,852	25,878	31,661	5,783
Total Receipts	<u>6,781,667</u>	<u>7,039,667</u>	<u>7,087,614</u>	<u>47,947</u>
Disbursements				
Current:				
Instruction				
Regular	2,924,602	3,254,273	3,252,503	1,770
Special	656,602	659,737	658,244	1,493
Vocational	178,696	241,283	230,887	10,396
Other	72,780	50,680	27,120	23,560
Support Services				
Pupil	130,942	161,287	157,375	3,912
Instructional Staff	308,906	354,484	353,980	504
Board of Education	16,540	24,940	23,438	1,502
Administration	607,523	657,703	656,386	1,317
Fiscal	179,756	226,696	210,745	15,951
Business	10,032	10,532	8,010	2,522
Operation and Maintenance of Plant	775,535	860,039	846,616	13,423
Pupil Transportation	233,711	371,103	370,680	423
Central	80,595	106,675	68,178	38,497
Extracurricular Activities	153,328	173,899	166,929	6,970
Debt Service				
Principal Retirement	14,476	10,105	10,104	1
Total Disbursements	<u>6,344,024</u>	<u>7,163,436</u>	<u>7,041,195</u>	<u>122,241</u>
Excess of Receipts Over (Under) Disbursements	<u>437,643</u>	<u>(123,769)</u>	<u>46,419</u>	<u>170,188</u>
Other Financing Sources (Uses)				
Proceeds of Sale of Fixed Assets	3,031	3,031	800	(2,231)
Other Financing Sources	22,229	22,229		(22,229)
Advances - In			42,600	42,600
Refund of Prior Year Expenditures			337	337
Operating Transfers - Out		(98,015)	(98,015)	
Advances - Out	(23,719)	(35,400)	(35,400)	
Total Other Financing Sources (Uses)	<u>1,541</u>	<u>(108,155)</u>	<u>(89,678)</u>	<u>18,477</u>
Net Change in Fund Balance	439,184	(231,924)	(43,259)	188,665
Fund Balance Beginning of Year	1,874,827	1,874,827	1,874,827	
Prior Year Encumbrances Appropriated	98,446	98,446	98,446	
Fund Balance End of Year	<u>\$2,412,457</u>	<u>\$1,741,349</u>	<u>\$1,930,014</u>	<u>\$188,665</u>

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets	
Cash and Cash Equivalents	\$82,115
Total Assets	<u>82,115</u>
Net Assets	
Unrestricted	82,115
Total Net Assets	<u>\$82,115</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, EXPENSES AND CHANGES
IN FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Business-Type Activity Enterprise</u>
Operating Receipts	
Charges for Services	\$263,278
Tuition & Fees	46,315
Total Operating Receipts	<u>309,593</u>
Operating Expenses	
Salaries	158,883
Fringe Benefits	40,026
Purchased Services	6,815
Materials and Supplies	145,854
Capital Outlay	3,212
Other	667
Total Operating Expenses	<u>355,457</u>
Operating Loss	<u>(45,864)</u>
Non-Operating Receipts	
Federal and State Subsidies	53,937
Interest	2,225
Other Non-Operating Receipts	2,981
Total Non-Operating Receipts	<u>59,143</u>
Change in Net Assets	13,279
Net Assets Beginning of Year	<u>68,836</u>
Net Assets End of Year	<u><u>\$82,115</u></u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Agency</u>
Assets	
Cash and Cash Equivalents	<u>\$36,780</u>
Total Assets	<u><u>36,780</u></u>
Net Assets	
Held in Trust for Students	35,696
Held in Trust for Employees	<u>1,084</u>
Total Net Assets	<u><u>\$36,780</u></u>

See accompanying notes to the financial statements.

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**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in a rural community in Northwest Ohio. The School District is located in Mercer County. The School District was staffed by 42 non-certificated employees and 67 certificated full-time teaching personnel who provide services to 968 students and other community members.

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

A. Primary Government

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

B. Component Units

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

The School District participates in five jointly governed organizations, three insurance purchasing pools and one related organization. These organizations are discussed in Note 12 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Northwest Ohio Area Computer Services Cooperative
- Mercer County Local Professional Development Committee
- West Central Ohio Special Education Regional Resource Center
- West Central Ohio Regional Professional Development Center
- Northwestern Ohio Educational Research Council, Inc.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

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

Insurance Purchasing Pools:
Ohio Association of School Business Officials Workers' Compensation Group
Rating Plan
Mercer Auglaize Employee Benefit Trust
Ohio School Insurance Plan
Related Organization:
Fort Recovery Public Library

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise (business-type activities) fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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

B. Fund Accounting

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

1. Governmental Funds

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Funds

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

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

3. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature. The School District only maintains agency funds which account for the Section 125 plan and those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

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

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

D. Cash and Investments

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

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During fiscal years 2007 and 2006, the School District invested in nonnegotiable certificates of deposits and repurchase agreements.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2007 was \$155,056, which included \$34,375 assigned from other School District funds. While interest receipts credited to the General Fund during fiscal year 2006 was \$81,746, which included \$17,900 assigned from other School District funds.

E. Inventory and Prepaid Items

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

F. Capital Assets

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

G. Interfund Receivables/Payables

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

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or laws through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At fiscal year end 2007 or 2006, the School District did not have any net assets restricted by enabling legislation.

L. Fund Balance Reserves and Designations

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation for termination benefits represents monies set aside by the Board for the future payment of those benefits.

M. Interfund Transactions

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

N. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund. The legal level of control for the general fund is at the two digit function level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding fiscal year-end encumbrances which are treated as cash disbursements (budget) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at fiscal year-end (budgetary basis) in the General Fund amounted to \$217,917 at June 30, 2007 and \$185,178 at June 30, 2006.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

A. Deposits

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

At June 30, 2007, the carrying amount of the School District's deposits was \$2,282,154 and the bank balance was \$2,426,807. \$445,089 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,981,718 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

At June 30, 2006, the carrying amount of the School District's deposits was \$2,272,179 and the bank balance was \$2,376,670. \$365,989 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,010,681 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

Investments are reported at fair value. The School District's only investment included repurchase agreements in the amount of \$677,713 at June 30, 2007 and \$381,023 at June 30, 2006.

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

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee." The School District's investment in repurchase agreements is exposed to credit risk due to the underlying securities are held by the investment's counterparty or its trust department or agent, not in the School District's name.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District's entire investments are in repurchase agreements.

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

5. PROPERTY TAXES (Continued)

Public utility property tax receipts received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. Tangible personal property is currently assessed at 18.75 percent of true value.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Mercer and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$72,630,160	87.24%	\$73,418,700	88.38%
Public Utility Personal	3,082,890	3.70%	3,031,610	3.65%
Tangible Personal Property	7,539,760	9.06%	6,618,600	7.97%
Total	\$83,252,810	100.00%	\$83,068,910	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$31.10		\$31.40	

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$64,728,410	84.62%	\$72,630,160	87.24%
Public Utility Personal	3,206,600	4.19%	3,082,890	3.70%
Tangible Personal Property	8,555,845	11.19%	7,539,760	9.06%
Total	\$76,490,855	100.00%	\$83,252,810	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$33.70		\$31.10	

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

6. INCOME TAXES

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

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal years 2007 and 2006, the School District participated in the Ohio School Insurance Plan for property, fleet coverage, and liability insurance.

Coverage provided is as follows:

Building and Business Personal Property Coverage (\$1,000 deductible)	\$27,917,587
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Education General Liability:	
Each Occurrence	1,000,000
Medical Expense – any one person/each accident	10,000
General Aggregate Limit	3,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Educational Legal Liability:	
Errors and Omissions Injury – each wrongful act (\$2,500 deductible)	1,000,000
Errors and Omissions Injury Aggregate	3,000,000
Employment Practices Injury – each wrongful act (\$2,500 deductible)	1,000,000
Employment Practices Injury Aggregate	3,000,000

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

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7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates/McDonald provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

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

8. DEFINED BENEFIT PENSION PLANS

A. State 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 visiting the SERS website at www.ohsers.org, under Forms and Publications.

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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8. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2007, 2006 and 2005 were \$100,307, \$101,771 and \$101,303 respectively; 45 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

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 (888) 227-7877 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 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal years ended June 30, 2007 and 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. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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8. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$487,444, \$445,135, and \$461,613 respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose social security or the School Employees Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POST-EMPLOYMENT 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 Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2007, and June 20, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$37,496 for fiscal year 2007 and \$34,241 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, (the latest information available) the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease from 3.42 percent in fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge,

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during the 2007 fiscal year equaled \$50,238 and 2006 fiscal year equaled \$51,536.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

10. DEBT

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	<u>Amount Outstanding 6/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2007</u>	<u>Amount Due in One Year</u>
Governmental Activities					
1998 School Improvement Bonds					
Serial and Term Bonds 3.75%-4.9%	\$2,295,000		(\$150,000)	\$2,145,000	\$150,000
Capital Appreciation Bonds 7.5%	386,194	\$18,947		405,141	
Environmental Protection Agency					
1989 Asbestos Abatement Loan 0%	14,330		(5,732)	8,598	5,732
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,695,524</u>	<u>\$18,947</u>	<u>(\$155,732)</u>	<u>\$2,558,739</u>	<u>\$155,732</u>

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Amount Outstanding 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2006</u>	<u>Amount Due in One Year</u>
Governmental Activities					
1998 School Improvement Bonds					
Serial and Term Bonds 3.75%-4.9%	\$2,435,000		(\$140,000)	\$2,295,000	\$150,000
Capital Appreciation Bonds 7.5%	368,134	\$18,060		386,194	
Environmental Protection Agency					
1989 Asbestos Abatement Loan 0%	20,061		(5,731)	14,330	5,732
Environmental Protection Agency					
1986 Asbestos Abatement Loan 0%	4,373		(4,373)		
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,827,568</u>	<u>\$18,060</u>	<u>(\$150,104)</u>	<u>\$2,695,524</u>	<u>\$155,732</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEBT (Continued)

1998 School Improvement General Obligation Bonds – On August 1, 1998, the School District issued \$3,389,193 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,705,000, \$1,500,000, and \$265,339, respectively. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amounts</u>
2014	\$190,000
2015	195,000
2016	205,000
2017	215,000
2018	225,000
2019	235,000

Unless previously redeemed, the remaining principal amount of \$235,000 will mature at stated maturity (December 1, 2020).

The term bonds maturing on or after December 1, 2009, are subjected to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after December 1, 2008, at the redemption prices (expressed as percentages of the principal amount to be redeemed) plus accrued interest to the redemption date as follows:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101%
December 1, 2009 and thereafter	100%

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For the fiscal year 2007, \$18,947 was accreted for total bond value of \$405,141. For the fiscal year 2006, \$18,060 was accreted for total bond value of \$386,194.

1989 Asbestos Removal Loan – On June 2, 1989, the School District obtained an interest free loan for asbestos removal. The loan was issued for a twenty year period, with final maturity during fiscal year 2009. The loan is being retired from the General Fund.

The School District's overall legal debt margin was \$5,086,857 and the unvoted debt margin was \$83,069 at June 30, 2007.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007, are as follows:

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(Continued)**

10. DEBT (Continued)

Fiscal Year Ending June 30,	General Obligation Bonds		1989 EPA
	Principal	Interest	Asbestos Loan
2008	\$150,000	\$99,000	\$5,732
2009	150,000	92,362	2,866
2010	175,000	85,088	0
2011	170,000	77,325	0
2012	65,970	182,530	0
2013-2017	708,233	556,647	0
2018-2021	910,000	90,895	0
Total	<u>\$2,329,203</u>	<u>\$1,183,847</u>	<u>\$8,598</u>

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

11. SET-ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements.

Fiscal Year 2007	Textbooks and	
	Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2006	(\$240,068)	
Current Year Set-aside Requirement	152,917	\$152,917
Qualifying Disbursements	(128,871)	(112,844)
Current Year Offset		(119,540)
Total	<u>(\$216,022)</u>	<u>(\$79,467)</u>
Excess Available to Carry-Over to Subsequent Year	<u>(\$216,022)</u>	<u>\$0</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

11. SET-ASIDE REQUIREMENTS (Continued)

Fiscal Year 2006	Textbooks and Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2005	(\$244,496)	
Current Year Set-aside Requirement	144,046	\$144,046
Qualifying Disbursements	(139,618)	(147,667)
Current Year Offsets		(102,286)
Total	<u>(\$240,068)</u>	<u>(\$105,907)</u>
Excess Available to Carry-Over to Subsequent Year	<u>(\$240,068)</u>	<u>\$0</u>

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

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

A. Jointly Governed Organizations

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these school supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District contributed to NOACSC \$8,262 during fiscal year 2007 and \$7,910 during fiscal year 2006. Financial information can be obtained by contacting Ray Burden, who serves as Director, at 645 South Main Street, Lima, OH 45804.

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

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(Continued)**

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

West Central Ohio Special Education Regional Resource Center – The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not make any financial contributions to SERRC during the fiscal year. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Harding County Education Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

West Central Ohio Regional Professional Development Center (Center) – The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not make any financial contributions to the Center during the fiscal year. Financial information can be obtained by contacting Greg Spiess, Treasurer, at the Hancock County Education Service Center, 7746 County Road 140, Findlay, Ohio 45840.

Northwestern Ohio Educational Research Council, Inc.- The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational programs, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research among, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, as well as representatives from two private and parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issued addressed by the Board of Directors. The School District did not make any financial contributions to NOERC during the fiscal year. Financial information can be obtained from Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

B. Insurance Purchasing Pools

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

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

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

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

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

C. Related Organization

Fort Recovery Public Library – The Fort Recovery Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. The School District did not make any financial contributions to the Fort Recovery Public Library during the fiscal year. Financial information can be obtained from the Fort Recovery Public Library, Marcia Staugler, Clerk/Treasurer, at 113 North Wayne Street, Fort Recovery, Ohio 45846.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

13. INTERFUND BALANCES

At June 30, 2007, the General Fund had an unpaid interfund cash advance, in the amount of \$7,400, for a short-term loan made to the Miscellaneous State Grants special revenue fund for Project Lead the Way. The advance was due to the timing of the receipt of grants. The advance will be repaid during fiscal year 2008. During fiscal year 2007, the School District transferred \$123,758 from the General Fund to the Termination Benefits special revenue fund, which is shown with other governmental funds. The transfer was to provide monies for future severance payments. In addition, the School District transferred \$50,000 from the General Fund to the Bond Retirement debt service fund, which is shown with other governmental funds. The transfer was to provide monies for debt payments. Finally, the School District transferred \$85,000 from the General Fund to the Permanent Improvement capital projects fund, which is shown with other governmental funds. The transfer was to provide for capital acquisitions.

At June 30, 2006, the General Fund had unpaid interfund cash advances, in the amount of \$7,200, for short-term loans made to the Public School Preschool, Ohio Reads and Miscellaneous State Grants special revenue funds. These advances were repaid during fiscal year 2006. In addition, the School District advanced \$35,400 from the General Fund to various special revenue funds. All of the advances were repaid by June 30, 2006. The advances were due to the timing of the receipt of grants. During fiscal year 2006, the School District transferred \$98,015 from the General Fund to the Termination Benefits special revenue fund, which is shown with other governmental funds. The transfer was to provide monies for future severance payments.

14. COMPLIANCE

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

15. CONTRACTUAL COMMITMENTS

The School District had the following outstanding contractual commitments at fiscal year end:

<u>Vendor</u>	<u>Purpose</u>	<u>Outstanding at June 30</u>
Fiscal Year 2007		
D.A. Robers & Associates, Inc.	sand, clean, paint	\$18,600
Star City Striping	sealing of cracks	11,210
Columbus Micro Systems	computers	65,711
Project Lead the Way, Inc.	Fishertechnicks POE kits	11,585
Fiscal Year 2006		
Columbu Micro Systems	computers	\$65,467

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

16. CONTINGENT LIABILITIES

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

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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*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, (the School District), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 6, 2008, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters that we reported to the School District's management in a separate letter dated March 6, 2008.

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

We intend this report solely for the information and use of the audit committee, management, and Board of Education. We intend it for no one 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

March 6, 2008

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

FINDING NUMBER 2007-001

NONCOMPLIANCE CITATION

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

Ohio Adm. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements for fiscal 2007 and 2006 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their annual financial reports in accordance with generally accepted accounting principles.

Officials Response:

The School District has prepared its financial statements using an alternative cash basis of financial reporting by compiling and completing OCBOA (other comprehensive basis of accounting) financial reports for both fiscal years ended June 30, 2007 and 2006. While we admit that the Ohio Administrative Code requires the School District to file our financial reports on a GAAP basis, the Board of Education, Superintendent and Treasurer believe that the financial costs associated with generating and auditing the reports on the GAAP basis outweighs any benefits the School District may obtain from preparing and filing GAAP reports.

**FORT RECOVERY LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC 117.38 and OAC 117-2-03 (B) – failure to prepare and file GAAP basis annual financial report.	No	Repeated as finding 2007-001



Mary Taylor, CPA
Auditor of State

FORT RECOVERY LOCAL SCHOOL DISTRICT

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 3, 2008**