



**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the District restated July 1, 2006 beginning net assets of the Governmental and Business-Type Activities and July 1, 2006 fund balance of the Other Governmental Funds due to reclassification of several funds from Enterprise to Special Revenue.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

December 12, 2007

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Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- ❑ Net assets of governmental activities increased \$1,086,104, which represents only a 4.5 percent increase from 2006. This increase is the result of the School District actively pursuing grants and monitoring expenses while still maintaining the high academic standards the communities expect of the School District.
- ❑ General revenues accounted for \$8,934,533 in revenue or 76.5 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$2,747,079, or 23.5 percent of total revenues of \$11,681,612.
- ❑ The School District had \$10,595,508 in expenses related to governmental activities; only \$2,747,079 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$8,934,533 were sufficient to cover the costs of these programs.
- ❑ Outstanding general obligation debt increased from \$7,514,280 in fiscal year 2006 to \$8,956,173 in fiscal year 2007.
- ❑ The School District refunded a portion of the high school bonds issued in 1996.

Using this Annual Financial Report (AFR)

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

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all School District activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

Table 1
Net Assets

	Governmental Activities		
	2007	2006	Change
Assets			
Current and Other Assets	\$25,249,610	\$26,614,950	(\$1,365,340)
Capital Assets	14,917,326	10,083,947	4,833,379
Total Assets	40,166,936	36,698,897	3,468,039
Liabilities			
Long-Term Liabilities	9,554,395	8,080,557	1,473,838
Other Liabilities	5,198,423	4,290,326	908,097
Total Liabilities	14,752,818	12,370,883	2,381,935
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,730,593	2,735,354	4,995,239
Restricted	15,394,367	19,588,326	(4,193,959)
Unrestricted	2,289,158	2,004,334	284,824
Total Net Assets	\$25,414,118	\$24,328,014	\$1,086,104

Total assets increased \$3,468,039, or 9.4 percent primarily due to an increase in cash and cash equivalents and capital assets. Cash increased as a result of additional Ohio School Facilities Commission (OSFC) grant revenue and improved earnings on investments. Capital assets increased due to additional construction in progress as the School District completes the OSFC project.

Liabilities for governmental activities totaled \$14,752,818, an increase of \$2,381,935 over 2006. The School District capitalized on a favorable bond market by refinancing a portion of the high school bonds, thereby reducing the overall long term liability of the School District. The School District signed a lease purchase agreement for the School District's portion of the OSFC project. The majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$8,934,533 or 77 percent of total revenue.

The net impact of assets and liabilities was an increase of net assets of the School District's governmental activities in the amount of \$1,086,104. Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

Fredericktown Local School District*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*Table 2
Changes in Net Assets

	Governmental Activities		
	2007	2006	Change
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$1,043,355	\$984,471	\$58,884
Operating Grants and Contributions	1,107,055	920,180	186,875
Capital Grants and Contributions	596,669	0	596,669
Total Program Revenues	2,747,079	1,904,651	842,428
<i>General Revenues:</i>			
Property Taxes	4,090,508	4,829,667	(739,159)
Grants and Entitlements	4,423,973	23,415,600	(18,991,627)
Interest	332,052	148,909	183,143
Other	88,000	101,216	(13,216)
Total General Revenues	8,934,533	28,495,392	(19,560,859)
Total Revenues	11,681,612	30,400,043	(18,718,431)
Expenses			
<i>Instruction</i>			
Regular	4,660,808	4,261,125	399,683
Special	978,217	955,041	23,176
Vocational	153,788	90,794	62,994
Adult/Continuing	1,200	1,683	(483)
<i>Support Services:</i>			
Pupil	358,552	343,264	15,288
Instructional Staff	778,877	755,558	23,319
Board of Education	49,750	43,313	6,437
Administration	825,562	806,309	19,253
Fiscal	343,789	249,365	94,424
Business	55,690	64,517	(8,827)
Operation and Maintenance of Plant	632,224	930,763	(298,539)
Pupil Transportation	500,271	549,396	(49,125)
Central	48,247	9,293	38,954
Food Service Operations	460,046	470,608	(10,562)
Extracurricular Activities	421,514	288,004	133,510
Interest and Fiscal Charges	326,973	390,496	(63,523)
Total Expenses	10,595,508	10,209,529	385,979
Increase in Net Assets	1,086,104	20,190,514	(19,104,410)
Net Assets Beginning of Year	24,328,014	4,137,500	20,190,514
Net Assets End of Year	\$25,414,118	\$24,328,014	\$1,086,104

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
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Total revenues of governmental activities were affected by the following:

- Property taxes revenues decreased due to fluctuations in the amount available for advances from the counties in the School District as well as the loss of a 4.5 mill operating levy.
- Grant and entitlement revenues decreased due to grant monies received from the Ohio Schools Facilities Commission for construction of a new PK-12 building for the School District.
- Interest revenue increased due to the overall improvement in the economy as well as the increase in the amount of cash the School District has invested.
- Capital grants and contributions increased due to the School District receiving a P.E.P grant in fiscal year 2007 and a donation of the athletic facility

Instruction comprises 54.7 percent of governmental program expenses. Support services for pupils and instructional staff comprise 10.7 percent. The remaining expenses are made up of pupil transportation, extracurricular activities, interest and fiscal charges and various administrative expenses of the School District. These expenses make up 34.6 percent of the governmental program expenses. Total expenses of governmental activities increased due to salary contract increases and increases in health care

Governmental Activities

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

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$4,090,508 in 2007. General revenues from grants and entitlements, such as the school foundation program and Ohio School Facilities Commission grants generated \$4,423,973. With the combination of taxes and intergovernmental funding over 80.4 percent of all expenses and intergovernmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 3
 Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Instruction	\$5,794,013	\$5,308,643	\$4,144,111	\$4,197,873
Support Services:				
Pupil and Instructional Staff	1,137,429	1,098,822	1,081,207	920,934
Board of Education, Administration, Fiscal and Business	1,274,791	1,163,504	1,272,091	1,160,304
Operation and Maintenance of Plant	632,224	930,763	623,114	923,678
Pupil Transportation	500,271	549,396	500,271	549,396
Central	48,247	9,293	39,247	293
Food Service Operations	460,046	470,608	107,234	83,875
Extracurricular Activities	421,514	288,004	(245,819)	78,029
Interest and Fiscal Charges	326,973	390,496	326,973	390,496
Total Expenses	<u>\$10,595,508</u>	<u>\$10,209,529</u>	<u>\$7,848,429</u>	<u>\$8,304,878</u>

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,591,987, expenditures of \$15,501,734, and other financing sources and uses of \$1,647,714. The net change in fund balance for the year was an increase of \$4,737,967. The general fund had revenues of \$8,904,839 and expenditures of \$8,730,533. This surplus of \$52,006 is due an increase in tuition and interest revenues. The Ohio school facilities fund had revenues of \$7,427,065 and expenditures of \$4,345,252 leaving a surplus of \$3,081,813 due to an increase in intergovernmental revenues.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the School District amended its general fund budget numerous times to allow for insignificant amendments.

For the general fund, final budget estimates was \$8,889,349, above original budget estimates of \$8,800,755. Of this \$88,594 difference, most was due to conservative estimates for intergovernmental revenues.

The original appropriations of \$9,205,233 stayed constant through out the fiscal year. Final appropriations were also \$9,205,233. Expenditures, however, were only \$8,913,680 or \$291,553 less than anticipated. This \$291,553 difference is due to the fact that the School District did not spend what it anticipated throughout the fiscal year.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$14,917,326 invested in capital assets. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	Governmental Activities	
	2007	2006
Land	\$418,825	\$408,500
Construction in Progress	4,888,713	391,963
Land Improvements	235,679	215,645
Buildings and Improvements	8,539,015	8,286,186
Furniture and Equipment	594,182	550,951
Vehicles	240,912	230,702
Totals	\$14,917,326	\$10,083,947

For fiscal year 2001, a change in Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2007, this amounted to \$165,961 for each set aside. For fiscal year 2007, the School District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The School District has budgeted to meet these requirements. For more information on capital assets refer to Note 11 to the Basic Financial Statements.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Debt

At June 30, 2007 the School District had \$8,956,173 in long-term obligations outstanding with \$287,000 due within one year. Table 5 summarizes the bonds outstanding:

(Table 5)
 Outstanding Debt, at Year End

	Governmental Activities 2007	Governmental Activities 2006
General Obligation Bonds:		
2001 School Improvement Bonds	\$2,987,797	\$7,464,280
2007 Refunding Bonds	4,416,376	0
Capital Lease	1,527,000	0
Energy Conservation Bonds	25,000	50,000
Total	<u>\$8,956,173</u>	<u>\$7,514,280</u>

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

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

During fiscal year 2007, the School District issued \$4,295,000 in general obligation bonds to refund a portion of the high school general obligations issues in order to take advantage of lower interest rates.

At June 30, 2007, the School District's overall legal debt margin was \$3,590,360 with an unvoted debt margin of \$114,785. For more information, refer to Note 15 to the Basic Financial Statements.

Current Issues Affecting Financial Condition

The School District has established a medical benefits committee of staff, administration and board members. During 2004/05 negotiations, the School District increased deductibles, out-of-pocket expenses for employees, increased prescription drug co-pay and implemented higher deductibles and higher out-of-pocket expenses for employees for non-PPO expenses. The School District returned \$190,371 to the general fund on April 25, 2007 from the self insurance internal service fund.

The end of fiscal year 2007 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on June 28, 2007 with a two year salary set at 3 percent and 3.5 percent increase with re-opener on salary for the last year of the contract. The end of fiscal year 2007 also marked the expiration of the classified employees' three year contract. A new three-year labor agreement was approved June 28, 2007. Their economic package contained in the new contract provides for 3

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

percent increase for the first year, 3.5 percent increase in the second year with a re-opener on salary for the third year. There were only minor changes to the insurance plan.

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

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

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

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

Although the School District was not funded for fiscal years 2004 or 2005, through a concerted effort, the School District was approved for exceptional needs and the School Board accepted the financial plan August 18, 2005. Because the original Master Plan called for renovation of the High School at an estimated cost of \$4 million and today the estimated cost is \$8 Million, OSFC recommends that we build a new High School Building. The project now reflects a PK-12 building. The site work was started in the summer of 2007 and the School District anticipates moving into the completed facility in August 2008.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.00 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

effective tax rate would become .5 mills and the owner would still pay \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Management must plan expenses accordingly, staying within the School District's five-year plan.

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

Contacting the School District's Financial Management

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

Fredericktown Local School District

Statement of Net Assets

June 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,396,417
Cash and Cash Equivalents	
With Fiscal Agents	808,714
Accrued Interest Receivable	1,986
Accounts Receivable	8,587
Intergovernmental Receivable	10,913,687
Taxes Receivable	3,947,843
Inventory Held for Resale	7,887
Materials and Supplies Inventory	3,235
Deferred Charges	161,254
Nondepreciable Capital Assets	5,307,538
Depreciable Capital Assets, Net	9,609,788
<i>Total Assets</i>	<u>40,166,936</u>
Liabilities	
Accounts Payable	16,322
Contracts Payable	1,248,976
Accrued Wages Payable	703,710
Intergovernmental Payable	194,646
Matured Compensated Absences Payable	16,287
Deferred Revenue	2,534,794
Matured Bonds Payable	48,000
Matured Interest Payable	13,020
Accrued Interest Payable	34,632
Claims Payable	388,036
Long-Term Liabilities:	
Due Within One Year	342,411
Due In More Than One Year	9,211,984
<i>Total Liabilities</i>	<u>14,752,818</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,730,593
Restricted for:	
Capital Projects	14,717,888
Debt Service	496,705
Other Purposes	179,774
Unrestricted	2,289,158
<i>Total Net Assets</i>	<u><u>\$25,414,118</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2007

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$4,660,808	\$585,523	\$225,447	\$146,669	(\$3,703,169)
Special	978,217	0	673,490	0	(304,727)
Vocational	153,788	0	18,773	0	(135,015)
Adult/Continuing	1,200	0	0	0	(1,200)
Support Services:					
Pupil	358,552	0	5,000	0	(353,552)
Instructional Staff	778,877	0	51,222	0	(727,655)
Board of Education	49,750	0	0	0	(49,750)
Administration	825,562	0	2,700	0	(822,862)
Fiscal	343,789	0	0	0	(343,789)
Business	55,690	0	0	0	(55,690)
Operation and Maintenance					
of Plant	632,224	9,110	0	0	(623,114)
Pupil Transportation	500,271	0	0	0	(500,271)
Central	48,247	0	9,000	0	(39,247)
Food Service Operations	460,046	231,389	121,423	0	(107,234)
Extracurricular Activities	421,514	217,333	0	450,000	245,819
Interest and Fiscal Charges	326,973	0	0	0	(326,973)
Totals	\$10,595,508	\$1,043,355	\$1,107,055	\$596,669	(7,848,429)
General Revenues					
Property Taxes Levied for:					
General Purposes					3,461,190
Debt Service					396,879
Capital Outlay					165,263
Classroom Facilities Maintenance					67,176
Grants and Entitlements not Restricted to Specific Programs					4,423,973
Investment Earnings					332,052
Miscellaneous					88,000
<i>Total General Revenues</i>					8,934,533
Change in Net Assets					1,086,104
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					24,328,014
<i>Net Assets End of Year</i>					<u>\$25,414,118</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Balance Sheet
Governmental Funds
June 30, 2007*

	General	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,160,933	\$4,744,386	\$2,491,098	\$9,396,417
Cash and Cash Equivalents				
With Fiscal Agents	0	0	62,006	62,006
Accrued Interest Receivable	1,986	0	0	1,986
Accounts Receivable	8,353	0	234	8,587
Intergovernmental Receivable	1,249	10,897,925	14,513	10,913,687
Inventory held for Resale	0	0	7,887	7,887
Materials and Supplies Inventory	0	0	3,235	3,235
Taxes Receivable	3,168,703	0	779,140	3,947,843
<i>Total Assets</i>	<u>\$5,341,224</u>	<u>\$15,642,311</u>	<u>\$3,358,113</u>	<u>\$24,341,648</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$6,903	\$0	\$9,419	\$16,322
Accrued Wages Payable	666,729	0	36,981	703,710
Contracts Payable	0	1,248,976	0	1,248,976
Intergovernmental Payable	171,762	0	22,884	194,646
Matured Compensated Absences Payable	16,188	0	99	16,287
Matured Bonds Payable	0	0	48,000	48,000
Matured Interest Payable	0	0	13,020	13,020
Deferred Revenue	2,024,559	10,897,925	608,865	13,531,349
<i>Total Liabilities</i>	<u>2,886,141</u>	<u>12,146,901</u>	<u>739,268</u>	<u>15,772,310</u>
Fund Balances				
Reserved for Encumbrances	82,822	3,345,949	103,698	3,532,469
Reserved for Property Taxes	1,144,144	0	174,145	1,318,289
Unreserved, Undesignated Reported In:				
General Fund	1,228,117	0	0	1,228,117
Special Revenue Funds	0	0	144,990	144,990
Debt Service Funds	0	0	489,692	489,692
Capital Projects Funds	0	149,461	1,706,320	1,855,781
<i>Total Fund Balances</i>	<u>2,455,083</u>	<u>3,495,410</u>	<u>2,618,845</u>	<u>8,569,338</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,341,224</u>	<u>\$15,642,311</u>	<u>\$3,358,113</u>	<u>\$24,341,648</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007*

Total Governmental Funds Balances		\$8,569,338
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,917,326
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	94,760	
Intergovernmental	<u>10,901,795</u>	
Total		10,996,555
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		358,672
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(34,632)
In the statement of activities, bond issuance costs are amortized over the time the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		161,254
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds	(2,910,000)	
Refunding School Bonds	(4,109,315)	
Energy Conservation Bonds	(25,000)	
General Obligation Bond Premium	(384,858)	
Capital Leases	(1,527,000)	
Compensated Absences	<u>(598,222)</u>	
Total		<u>(9,554,395)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$25,414,118</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$3,471,745	\$0	\$640,539	\$4,112,284
Intergovernmental	4,591,911	7,348,052	1,087,321	13,027,284
Interest	195,960	79,013	41,496	316,469
Tuition and Fees	528,845	0	56,678	585,523
Extracurricular Activities	19,560	0	197,773	217,333
Rentals	9,110	0	0	9,110
Charges for Services	0	0	231,389	231,389
Contributions and Donations	3,750	0	845	4,595
Miscellaneous	83,958	0	4,042	88,000
<i>Total Revenues</i>	<u>8,904,839</u>	<u>7,427,065</u>	<u>2,260,083</u>	<u>18,591,987</u>
Expenditures				
Current:				
Instruction:				
Regular	4,313,782	0	308,223	4,622,005
Special	813,793	0	225,031	1,038,824
Vocational	132,335	0	25,000	157,335
Adult/Continuing	0	0	1,200	1,200
Support Services:				
Pupil	350,725	0	12,969	363,694
Instructional Staff	526,605	0	277,461	804,066
Board of Education	49,750	0	0	49,750
Administration	815,197	0	2,700	817,897
Fiscal	243,705	0	100,863	344,568
Business	55,690	0	0	55,690
Operation and Maintenance of Plant	614,256	0	13,389	627,645
Pupil Transportation	528,166	0	0	528,166
Central	0	0	48,247	48,247
Food Service Operations	0	0	487,102	487,102
Extracurricular Activities	259,523	0	151,696	411,219
Capital Outlay	0	4,345,252	188,050	4,533,302
Debt Service:				
Principal Retirement	25,000	0	175,000	200,000
Interest and Fiscal Charges	2,006	0	320,906	322,912
Bond Issuance Costs	0	0	88,112	88,112
<i>Total Expenditures</i>	<u>8,730,533</u>	<u>4,345,252</u>	<u>2,425,949</u>	<u>15,501,734</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>174,306</u>	<u>3,081,813</u>	<u>(165,866)</u>	<u>3,090,253</u>
Other Financing Sources (Uses)				
Capital Lease Issued	0	0	1,527,000	1,527,000
Refunding Bonds Issued	0	0	4,295,000	4,295,000
Payment to Refunded Bond Escrow Agent	0	0	(4,488,488)	(4,488,488)
Premium on Bond Issuance	0	0	314,202	314,202
Transfers In	0	0	122,300	122,300
Transfers Out	(122,300)	0	0	(122,300)
<i>Total Other Financing Sources (Uses)</i>	<u>(122,300)</u>	<u>0</u>	<u>1,770,014</u>	<u>1,647,714</u>
<i>Net Change in Fund Balances</i>	52,006	3,081,813	1,604,148	4,737,967
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>2,403,077</u>	<u>413,597</u>	<u>1,014,697</u>	<u>3,831,371</u>
<i>Fund Balances End of Year</i>	<u>\$2,455,083</u>	<u>\$3,495,410</u>	<u>\$2,618,845</u>	<u>\$8,569,338</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds \$4,737,967

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

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

Capital Assets Additions				
Capital Outlays		4,785,897		
Capital Contributions		450,000		
Current Year Depreciation		(401,289)		
Total				4,834,608

Governmental funds only report the disposal of capital assets to the extent proceeds are received
from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,229)

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

Delinquent Property Taxes		(21,776)		
Intergovernmental		(7,354,182)		
Total				(7,375,958)

Repayment of school improvement bonds, and energy bonds are an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net assets. 4,688,488

Some expenses reported in the statement of activities, such as compensated absences of current
financial resources and therefore are not reported as expenditures in governmental funds. (31,945)

Other financing sources in the governmental funds increase long-term liabilities in the statement
of net assets.

Proceeds of Bonds		4,295,000		
Premium on Bonds		314,202		
Proceeds of Capital Lease		1,527,000		
Total				(6,136,202)

In the statement of activities, bond issuance costs are amortized over the term of the bonds,
whereas, in governmental funds a bond issuance expenditure is reported when bonds are issued. 88,112

Some expenses reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Bonds		(1,617)		
Amortization of Premium		13,624		
Amortization of Issuance Costs		(8,265)		
Accretion		(3,389)		
Amortization of Loss on Refunding		(4,414)		
Total				(4,061)

The internal service fund used by management to charge the cost of health insurance to individual funds is
not reported in the entity-wide statement of activities. Governmental expenditures and related internal
service fund revenues are eliminated. The change for the governmental funds is reported for the year. 286,324

Change in Net Assets of Governmental Activities \$1,086,104

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$3,360,000	\$3,267,558	\$3,463,222	\$195,664
Intergovernmental	4,554,900	4,726,342	4,590,662	(135,680)
Interest	140,000	140,000	195,892	55,892
Tuition and Fees	513,500	513,500	528,845	15,345
Extracurricular Activities	21,000	21,000	19,560	(1,440)
Rentals	6,900	6,900	9,110	2,210
Contributions and Donations	0	0	3,750	3,750
Miscellaneous	204,455	214,049	81,956	(132,093)
<i>Total Revenues</i>	<u>8,800,755</u>	<u>8,889,349</u>	<u>8,892,997</u>	<u>3,648</u>
Expenditures				
Current:				
Instruction:				
Regular	4,443,564	4,443,564	4,353,148	90,416
Special	858,828	858,828	831,730	27,098
Vocational	132,904	132,904	132,655	249
Support Services:				
Pupil	382,451	382,451	373,449	9,002
Instructional Staff	580,704	580,704	528,011	52,693
Board of Education	66,518	66,518	61,173	5,345
Administration	869,715	869,715	845,704	24,011
Fiscal	248,815	248,815	243,573	5,242
Business	79,688	79,688	79,688	0
Operation and Maintenance of Plant	642,866	642,866	642,866	0
Pupil Transportation	615,867	615,867	542,322	73,545
Extracurricular Activities	256,307	256,307	252,355	3,952
Debt Service:				
Principal Retirement	25,000	25,000	25,000	0
Interest and Fiscal Charges	2,006	2,006	2,006	0
<i>Total Expenditures</i>	<u>9,205,233</u>	<u>9,205,233</u>	<u>8,913,680</u>	<u>291,553</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(404,478)</u>	<u>(315,884)</u>	<u>(20,683)</u>	<u>295,201</u>
Other Financing Sources (Uses)				
Advances In	190,371	466,924	466,923	(1)
Advances Out	(266,552)	(266,552)	(266,552)	0
Transfers Out	(122,300)	(122,300)	(122,300)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(198,481)</u>	<u>78,072</u>	<u>78,071</u>	<u>(1)</u>
<i>Net Change in Fund Balance</i>	<u>(602,959)</u>	<u>(237,812)</u>	<u>57,388</u>	<u>295,200</u>
<i>Fund Balance Beginning of Year</i>	<u>1,876,287</u>	<u>1,876,287</u>	<u>1,876,287</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>137,594</u>	<u>137,594</u>	<u>137,594</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,410,922</u>	<u>\$1,776,069</u>	<u>\$2,071,269</u>	<u>\$295,200</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2007

	<u>Insurance</u>
Assets	
<i>Current Assets</i>	
Cash and Cash Equivalents With Fiscal Agents	\$746,708
Liabilities	
<i>Current Liabilities</i>	
Claims Payable	<u>388,036</u>
Net Assets	
Unrestricted	<u><u>\$358,672</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007*

	Insurance
Operating Revenues	
Charges for Services	\$2,050,780
Operating Expenses	
Purchased Services	264,767
Claims	1,515,272
<i>Total Operating Expenses</i>	1,780,039
<i>Operating Income</i>	270,741
Non-Operating Revenues	
Interest	15,583
Change in Net Assets	286,324
<i>Net Assets Beginning of Year</i>	72,348
<i>Net Assets End of Year</i>	\$358,672

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund	
Services Provided	\$2,050,780
Cash Payments for Goods and Services	(264,767)
Cash Payments for Claims	(1,424,997)
<i>Net Cash Provided by Operating Activities</i>	361,016
Cash Flows from Noncapital Financing Activities	
Advances Out	(190,371)
Cash Flows from Investing Activities	
Interest on Investments	15,583
<i>Net Increase in Cash and Cash Equivalents</i>	186,228
<i>Cash and Cash Equivalents Beginning of Year</i>	560,480
<i>Cash and Cash Equivalents End of Year</i>	\$746,708
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$270,741
Adjustments:	
Increase in Claims Payable	90,275
<i>Net Cash Provided by Operating Activities</i>	\$361,016

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$21,924
Liabilities	
Undistributed Monies	\$996
Due to Students	<u>\$20,928</u>
Total Liabilities	<u>\$21,924</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 1 - Description of the School District

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 47 classified employees and 87 certificated employees who provide services to 1,182 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

Reporting Entity

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

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

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool. These organizations are presented in Note 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

B. Fund Accounting

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the School District has no enterprise funds.

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

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

C. Measurement Focus

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$195,960 which includes \$123,180 assigned from other School District funds.

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

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

F. Inventory

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

G. Bond Issuance Costs

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

H. Bond Premium

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

I. Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the straight line method since the results are not significantly different from the effective interest method.

J. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 - 50 years
Buildings and Improvements	8 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	7 - 10 years

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Compensated Absences

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$15,394,367 of restricted net assets, none of which are restricted by enabling legislation. Net assets for other purposes include providing early childhood education programs, reducing class-sizes and student activities.

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

O. Fund Balance Reserves

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

P. Operating Revenues and Expenses

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

Q. Interfund Activity

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

Note 3 – Restatement of Prior Year’s Balances

During fiscal year 2007, it was determined to reclassify the food service, latchkey and uniform school supplies funds as special revenue funds due to the funds meeting the definition of a special revenue fund. This restatement had the following effect on fund balance as they were previously reported.

	<u>General</u>	<u>Ohio School Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance, June 30, 2006	\$2,403,077	\$413,597	\$992,441	\$3,809,115
Fund Reclassification	<u>0</u>	<u>0</u>	<u>22,256</u>	<u>22,256</u>
Restated Fund Balance, June 30, 2006	<u>\$2,403,077</u>	<u>\$413,597</u>	<u>\$1,014,697</u>	<u>\$3,831,371</u>

This restatement had the following effect on net assets as they were previously reported.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Assets, June 30, 2006	\$23,922,510	\$405,504	\$24,328,014
Fund Reclassification	<u>405,504</u>	<u>(405,504)</u>	<u>0</u>
Restated Net Assets, June 30, 2006	<u>24,328,014</u>	<u>0</u>	<u>\$24,328,014</u>

Note 4 – Compliance and Accountability

A. Compliance

Contrary to Ohio Revised Code Section 5705.41(B) the internal service fund had expenditures plus encumbrances in excess of appropriations in the amount of \$26,717.

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

B. Accountability

Fund balances at June 30, 2007, included the following individual fund deficits:

<i>Special Revenue Funds</i>	
Food Service	\$21,352
Ohio Reads	9
Title VI-B	21,289

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$52,006
Net Adjustment for Revenue Accruals	(11,842)
Advances In	466,923
Net Adjustment for Expenditure Accruals	(93,483)
Advances Out	(266,552)
Adjustment for Encumbrances	<u>(89,664)</u>
Budget Basis	<u>\$57,388</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 6 - 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

At June 30, 2007, the School District's self-insurance internal service fund had a balance of \$746,708 with OME-RESA, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$3,319,480 of the School District's bank balance of \$3,619,480 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments As of June 30, 2007, the School District only had an investment of \$6,054,326 in STAROhio, the State Treasurer's Investment Pool. This investment has an average maturity of 38.6 days.

Credit Risk Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Note 7 - Property Taxes

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The School District receives property taxes from Knox and Morrow Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$1,144,144 in the general fund, \$106,122 in the bond retirement debt service fund, \$13,578 in the classroom facilities fund, and \$54,445 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$1,135,621 in the general fund, \$194,645 in the bond retirement debt service fund, \$23,118 in the classroom facilities fund, and \$73,634 in the permanent improvement capital projects fund.

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

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

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$110,567,640	83.24%	\$111,539,090	83.68%
Public Utility Personal	4,493,320	3.38	4,421,970	3.32
General Business Personal	17,766,791	13.38	17,328,055	13.00
Total	\$132,827,751	100.00%	\$133,289,115	100.00%
Full Tax Rate per \$1,000 of assessed valuation		\$53.40		\$48.46

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

The School District did not renew a five year 4.5 mill operating levy designated for current operating expenses. Tax revenue decreased from the loss of the levy beginning in January 2007.

Note 8 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

Note 9 - Receivables

Receivables at June 30, 2007, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except for delinquent property taxes and the Ohio School Facilities Commission grant money, are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Ohio School Facilities Grant	\$10,897,925
Miscellaneous Federal Grants	10,643
Ohio Reads Grant	2,000
Project Lead the Way Grant	1,870
Other	<u>1,249</u>
Total	<u>\$10,913,687</u>

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the School District contracted with Selective Insurance for buildings and contents, liability and fleet insurance.

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

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

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Self-Insurance

The School District offers medical and surgical insurance to all employees, and dental insurance is offered to all certified employees through a self-insurance internal service fund. The School District is self insured with Self-Fund Plans, Incorporated, serving as the third party administrator. The claims liability of \$388,036 reported in the internal service fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2006 and 2007 were:

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2006	\$326,534	\$839,688	\$868,461	\$297,761
2007	297,761	1,515,272	1,424,997	388,036

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/2006	Additions	Deductions	Balance 6/30/2007
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$408,500	\$10,325	\$0	\$418,825
Construction in Progress	391,963	4,496,750	0	4,888,713
<i>Total Non-Depreciable Assets</i>	<u>800,463</u>	<u>4,507,075</u>	<u>0</u>	<u>5,307,538</u>
<i>Depreciable Assets</i>				
Land Improvements	352,914	41,888	0	394,802
Building and Improvements	10,284,446	451,850	0	10,736,296
Furniture and Equipment	1,763,853	168,209	(93,565)	1,838,497
Vehicles	782,099	66,875	0	848,974
<i>Total Depreciable Assets</i>	<u>13,183,312</u>	<u>728,822</u>	<u>(93,565)</u>	<u>13,818,569</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(137,269)	(21,854)	0	(159,123)
Building and Improvements	(1,998,260)	(199,021)	0	(2,197,281)
Furniture and Equipment	(1,212,902)	(123,749)	92,336	(1,244,315)
Vehicles	(551,397)	(56,665)	0	(608,062)
<i>Total Accumulated Depreciation</i>	<u>(3,899,828)</u>	<u>(401,289) *</u>	<u>92,336</u>	<u>(4,208,781)</u>
<i>Depreciable Capital Assets, Net</i>	<u>9,283,484</u>	<u>327,533</u>	<u>(1,229)</u>	<u>9,609,788</u>
Governmental Activities Capital Assets, Net	<u>\$10,083,947</u>	<u>\$4,834,608</u>	<u>(\$1,229)</u>	<u>\$14,917,326</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$194,847
Special	13,684
Vocational	3,676
Support Services:	
Pupil	6,800
Instructional Staff	10,115
Administration	22,373
Fiscal	2,563
Operation and Maintenance of Plant	26,859
Pupil Transportation	56,865
Food Service Operations	15,264
Extracurricular Activities	48,243
Total Depreciation Expense	<u>\$401,289</u>

Note 12 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 228 days for certificated and 220 days for remaining personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified employees and 57 days for certified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

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

Note 13 - Defined Benefits Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 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. 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 \$113,013, \$106,139 and \$117,062, respectively; 42.17 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 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$532,030, \$525,497, and \$506,781, respectively; 84.52 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,034 made by the School District and \$12,750 made by the plan members.

C. Social Security System

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

Note 14 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$40,925 for fiscal year 2007.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$59,046.

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

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/2006	Additions	Reductions	Principal Outstanding 6/30/2007	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
School Improvement Bonds					
Current Issue Serial Bonds	\$7,380,000	\$0	(\$4,470,000)	\$2,910,000	\$185,000
Unamortized Premium	84,280	0	(6,483)	77,797	0
Total School Improvement Bonds	<u>7,464,280</u>	<u>0</u>	<u>(4,476,483)</u>	<u>2,987,797</u>	<u>185,000</u>
Refunding School Bonds					
Current Issue Serial Bonds	0	2,760,000	0	2,760,000	30,000
Capital Appreciation Bonds	0	30,000	0	30,000	0
Accretion on Capital					
Appreciation Bonds	0	3,389	0	3,389	0
Serial Term Bonds	0	1,505,000	0	1,505,000	0
Unamortized Premium	0	314,202	(7,141)	307,061	0
Unamortized Loss	0	(193,488)	4,414	(189,074)	0
Total Refunding School Bonds	<u>0</u>	<u>4,419,103</u>	<u>(2,727)</u>	<u>4,416,376</u>	<u>30,000</u>
Total General Obligation Bonds	7,464,280	4,419,103	(4,479,210)	7,404,173	215,000
Other Long-Term Obligations					
1997 Energy Conservation Bonds	50,000	0	(25,000)	25,000	25,000
Capital Leases	0	1,527,000	0	1,527,000	47,000
Compensated Absences	566,277	326,890	(294,945)	598,222	55,411
Total Governmental Activities Long-Term Liabilities	<u>\$8,080,557</u>	<u>\$6,272,993</u>	<u>(\$4,799,155)</u>	<u>\$9,554,395</u>	<u>\$342,411</u>

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

On April 26, 2007, the School District issued \$4,295,000 in voted general obligation bonds which included serial, capital appreciation (deep discount) and term bonds in the amount of \$2,760,000, \$30,000 and \$1,505,000, respectively. The general obligation bonds were issued for the purpose of refunding a portion of the 2001 school improvement bonds to take advantage of lower interest rates. An analysis of the information follows:

	<u>2001 School Improvement Bonds</u>
Outstanding at June 30, 2006	\$7,380,000
Amount Refunded	<u>(4,295,000)</u>
Non-Refunded Portion	3,085,000
Principal Payment on Non-Refunded Portion	<u>(175,000)</u>
Outstanding at June 30, 2007	<u><u>\$2,910,000</u></u>

The bonds were issued for a twenty-two year period with final maturity at December 1, 2028. The bonds will be retired from the debt service fund.

The current issue term bonds will be repaid through annual debt service repayments through fiscal year 2029. The capital appreciation bonds were originally sold at a discount of \$335,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is fiscal year 2020.

The maturity amount of outstanding capital appreciation bonds at June 30, 2007 is \$365,000. The accretion recorded for 2007 was \$3,389, for a total outstanding bond liability of \$33,389 at June 30, 2007.

The bonds were sold at a premium of \$314,202. Proceeds of \$4,488,488 (after the premium, underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunding portion of the 2001 school improvement bonds. As a result, \$4,295,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the School District's financial statements. At June 30, 2007, the balance of the remaining bonds is \$2,910,000.

The School District decreased its total debt service payments by \$247,822 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$130,477.

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

All general obligation bonds will be paid from property taxes. Compensated absences will be paid from the general fund and the food service and title VI-B special revenue funds. The capital lease will be paid from the building capital projects fund.

The School District's overall debt margin was \$3,590,360 with an unvoted debt margin of \$114,785 at June 30, 2007. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2007 are as follows:

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$215,000	\$276,658	\$0	\$0	\$0	\$63,962
2009	210,000	367,704	0	0	0	63,962
2010	220,000	258,469	0	0	0	63,962
2011	225,000	248,604	0	0	0	63,962
2012	245,000	237,964	0	0	0	63,962
2013-2017	1,390,000	971,750	0	0	0	319,810
2018-2022	1,425,000	571,478	30,000	335,000	0	319,810
2023-2027	1,740,000	181,937	0	0	480,000	309,611
2028-2029	0	0	0	0	1,025,000	44,093
Totals	\$5,670,000	\$3,114,564	\$30,000	\$335,000	\$1,505,000	\$1,313,134

The energy conservation bond has a final payment of \$25,669, \$25,000 in principal and \$669 in interest.

Note 16 - Capital Leases

A new capital lease obligation recorded on the governmental wide statements relates to the construction of various school buildings. As part of this agreement, the Ohio Association of School Business Officials, as lessor, deposited \$1,527,000 into the School District's account. The proceeds will be used for the School District's portion of the Ohio School Facilities Commission school renovation project. At fiscal year end, \$1,527,000 remains in the building capital projects fund. The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007.

Year Ending June 30,	
2008	\$113,755
2009	114,602
2010	114,338
2011	113,984
2012	114,520
2012 - 2017	575,976
2018 - 2022	578,725
2023 - 2027	582,029
Total minimum lease payments	2,307,929
Less: Amount representing interest	780,929
Present Value of Minimum Lease Payments	<u>\$1,527,000</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 17 - Jointly Governed Organization and Public Entity Risk Pool

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$26,875 to TRECA during fiscal year 2007 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Insurance Purchasing Pool

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

Note 18 - Set-Asides

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balances as of June 30, 2007	(\$168,309)	(\$523,801)
Current Year Set-aside Requirement	165,961	165,961
Current Year Offsets	0	244,313
Qualifying Disbursements	127,478	0
Total	<u>(\$129,826)</u>	<u>(\$602,153)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$129,826)</u>	<u>(\$602,153)</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

The School District had qualifying disbursements or offsets during the fiscal year that reduced the textbook and capital improvement set-asides amount below zero. This amount may be used to reduce the set-aside requirement of future years.

Note 19 – Interfund Transfers

A transfer of \$122,300 was made from the general fund into the food service fund to provide for the payment of expenditures and maintain the food service operations for the students.

Note 20 – Public Utility Property Tax Refund

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

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$ -	\$ 14,942	\$ -	\$ 14,942
Child Nutrition Cluster National School Lunch Program	LL-P4 2007	10.555	108,020	-	108,020	-
Breakfast Program	05PU-2007	10.553	4,872	-	4,872	-
Special Milk Program	02PU-2007	10.556	2,402	-	2,402	-
Total Child Nutrition Cluster			115,294	-	115,294	-
Total U.S. Department of Agriculture			115,294	14,942	115,294	14,942
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Direct Program:</i>						
P.E.P. Wellnes Program	N/A	84.215	246,825	-	246,825	-
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2007	84.010	88,809	-	88,809	-
Special Education Grants to States (IDEA Part B)	6B-SF 2007	84.027	289,593	-	289,259	-
Vocational Education - Basic Grants to States	20A0-2005	84.048	10,000	-	18,375	-
Safe and Drug Free Schools and Community	DR-S1 2007	84.186	3,315	-	3,315	-
Innovative Education Program Strategies	C2-S1 2007	84.298	1,582	-	1,582	-
Title II-D Education Technology State Grant	TJ-S1 2007	84.318	924	-	924	-
Title II-A Improving Teacher Quality	TR-S1 2007	84.367	51,222	-	51,222	-
	TR-S1 2006		-	-	2,113	-
Total Title II-A Improving Teacher Quality			51,222	-	53,335	-
Total U.S. Department of Education			692,270	-	702,424	-
Total Federal Awards			\$ 807,564	\$ 14,942	\$ 817,718	\$ 14,942

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

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--CHILD NUTRITION CLUSTER

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

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2007, wherein we noted the District restated July 1, 2006 beginning net assets of the Governmental and Business-Type Activities and July 1, 2006 fund balance of the Other Governmental Funds due to reclassification of several funds from Enterprise to Special Revenue. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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 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 District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding Number 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above as Finding Number 2007-001 is also a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated December 12, 2007.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the 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, Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 12, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fredericktown Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Fredericktown Local School District, Knox County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

December 12, 2007

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2007-001

Financial Statement Presentation – Significant Deficiency / Material Weakness

A monitoring system by the Treasurer should be in place to prevent or detect material misstatements for the accurate presentation of the District's financial statements.

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-001 (Continued)

The following errors were noted involving the District's financial statement presentation:

- The amount reported for Claims Payable was understated. (\$57,990)
- Donation of a new athletic facility (\$450,000) and a donation of land (\$10,325) during the fiscal year were not recorded.
- Construction-in-Progress expenditures were not capitalized. (\$1,095,293)
- Contracts Payable were recorded as Accounts Payable (\$1,148,984) and some Contracts Payable were not recorded (\$89,667).
- Program Revenues were classified as General Revenues. (\$313,861)
- Restricted net assets were classified as Unrestricted net assets for a federal grant (\$39,681) and self insurance (\$416,662).

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify variances and discrepancies.

We recommend the District's Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP). If necessary, those assigned to identify and summarize GAAP financial information should receive training related to GAAP reporting. By exercising accuracy in recording financial activity, the District can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

The District's financial statements have been adjusted to accurately reflect the proper line item classifications.

Officials' Response:

Management has indicated that financial statements will be closely reviewed to help ensure material misstatements do not occur in subsequent reporting periods.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Rev. Code Section 5705.41 (B)	Partially	Ohio Rev. Code Section 5705.41 (B) reported in the management letter.



Mary Taylor, CPA
Auditor of State

FREDERICKTOWN LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 12, 2008**