



Dave Yost • Auditor of State



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, as of June 30, 2010, and the respective changes in cash financial position and the respective budgetary comparison for the General and Termination Benefit Funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Disbursements provides additional information required by the 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. The Schedule of Federal Awards Receipts and Disbursements is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

January 24, 2011

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

The discussion and analysis of Fort Recovery Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- For governmental activities, net assets increased \$267,432, which represents an 8 percent increase from 2009. Net assets of business-type activities increased \$46,405 or 34 percent from 2009.
- General receipts accounted for \$9,910,537 in receipts or 87 percent of all governmental receipts. Program specific receipts in the form of charges for services, operating grants and contributions and interest and capital grants and contributions accounted for \$1,494,771 or 13 percent of total governmental receipts of \$11,405,308.
- The School District had \$11,137,876 in disbursements related to governmental activities; only \$1,494,771 of these disbursements was offset by program specific charges for services, grants or contributions. General receipts (primarily taxes and unrestricted state aid) of \$9,910,537 were adequate to provide for these programs.
- The General Fund, which is a major fund, had \$8,117,440 in receipts and \$7,781,449 in disbursements. The General Fund's balance increased \$106,636 from 2009.
- The Termination Benefits Fund's fund balance decreased \$28,936 during fiscal year 2010.
- Net assets for business-type activities increased \$46,405.
- During fiscal year 2010, the School District refunded a portion of its 1998 School Improvement General Obligation Bonds resulting in a reduction its total debt service payments over the next twelve years by \$286,687.

**Using this Annual Report**

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Basis of Accounting**

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

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

**Reporting the School District as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

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



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Reporting the School District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the School District's major funds begins on page 14. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Termination Benefits Special Revenue Fund.

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

**Proprietary Funds** – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has three enterprise funds, the Food Service Fund, Adult Education and the Preschool Fund. The Adult Education Fund had no activity during fiscal year 2010.

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

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to fiscal year 2009 on a cash basis:

**(Table 1)  
Net Assets**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,153,432	\$3,420,864	\$136,092	\$182,497
<b>Net Assets</b>				
<b>Restricted for:</b>				
Capital Projects	141,635	303,228		
Debt Service	173,853	174,148		
Other Purposes	644,829	298,576		
Unrestricted	2,193,115	2,644,912	136,092	182,497
<b>Total Net Assets</b>	<b>\$3,153,432</b>	<b>\$3,420,864</b>	<b>\$136,092</b>	<b>\$182,497</b>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

As mentioned previously, net assets of governmental activities increased \$267,432 or 8 percent during fiscal year 2010. The School District transferred \$170,000 from its General Fund to its Permanent Improvement capital projects fund which increased net assets restricted for capital projects. Unrestricted net assets increased \$106,636 in the general fund during fiscal year 2010, due to a one-time large income tax payment by a group of individuals in the School District. Administration expenses decreased \$111,851 from fiscal year 2009 to fiscal year 2010, due to a large portion of the health care costs being charged to the new State Fiscal Stabilization Fund during 2010. This is a temporary movement of expenditure and not an actual decrease in expenditures.

Table 2 reflects the changes in net assets for fiscal year 2010 compared to fiscal year 2009.

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

	<b>Governmental Activities 2009</b>	<b>Governmental Activities 2010</b>	<b>Business- Type Activities 2009</b>	<b>Business- Type Activities 2010</b>
<b>Receipts:</b>				
<b>Program Receipts:</b>				
Charges for Services	\$ 560,507	\$ 572,458	\$367,518	\$376,383
Operating Grants and Contributions	974,356	922,313	70,981	78,194
Capital Grants and Contributions	8,004			
<b>Total Program Receipts</b>	<b>1,542,867</b>	<b>1,494,771</b>	<b>438,499</b>	<b>454,577</b>
<b>General Receipts:</b>				
Property and Income Taxes	3,288,102	3,415,291		
Grants and Entitlements Not Restricted to Specific Programs	4,577,173	4,669,568		
Refunding Bonds Issued (includes premium)		1,745,485		
All Other	91,525	80,193	2,210	3,628
<b>Total General Receipts</b>	<b>7,956,800</b>	<b>9,910,537</b>	<b>2,210</b>	<b>3,628</b>
<b>Total Receipts</b>	<b>9,499,667</b>	<b>11,405,308</b>	<b>440,709</b>	<b>458,205</b>
<b>Disbursements:</b>				
Instruction	6,011,016	5,900,669		
Support Services	3,115,964	2,902,748		
Operation of Non-Instructional Services	6,350	1,900		
Extracurricular Activities	293,660	326,985		
Debt Service	245,229	328,567		
Payment to Refunded Bond Escrow Agent		1,677,007		
Food Services			378,443	341,679
Preschool Program			55,230	70,121
<b>Total Disbursements</b>	<b>9,672,219</b>	<b>11,137,876</b>	<b>433,673</b>	<b>411,800</b>
Transfers	(50,000)		50,000	
Advances				
Increase (Decrease) in Net Assets	(222,552)	267,432	57,036	46,405
Net Assets, Beginning of Year	3,375,984	3,153,432	79,056	136,092
<b>Net Assets, End of Year</b>	<b>\$3,153,432</b>	<b>\$3,420,864</b>	<b>\$136,092</b>	<b>\$182,497</b>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

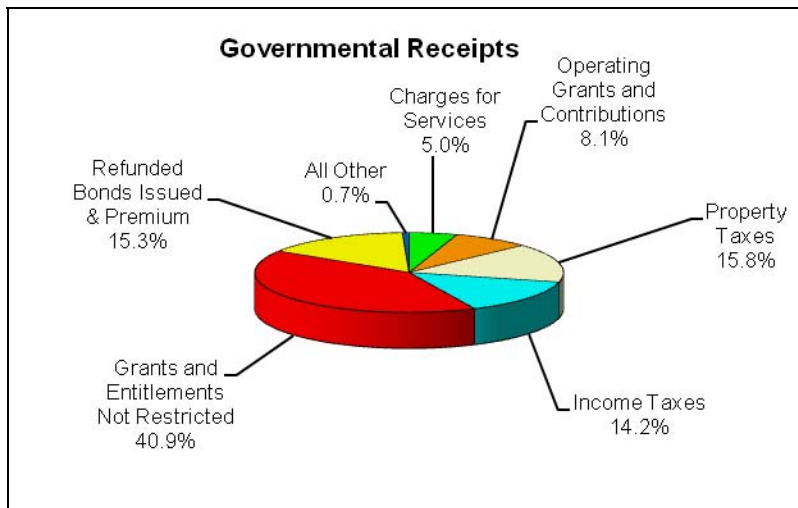
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Governmental Activities**

Several sources fund the School District's governmental activities with the School Foundation being the largest contributor. Property and income taxes generated \$3.4 million. The combination of taxes and intergovernmental funding not restricted provided 70.9 percent of governmental funding for fiscal year 2010. The School District monitors both of these sources very closely for fluctuations.

During fiscal year 2010, the School District refunded a portion of its 1998 School Improvement General Obligation Bonds. Total general receipts increased as a result of this. Debt service increased as a result of the bond issuance costs and total disbursements increased due to the payment to the refunded bond escrow agent.

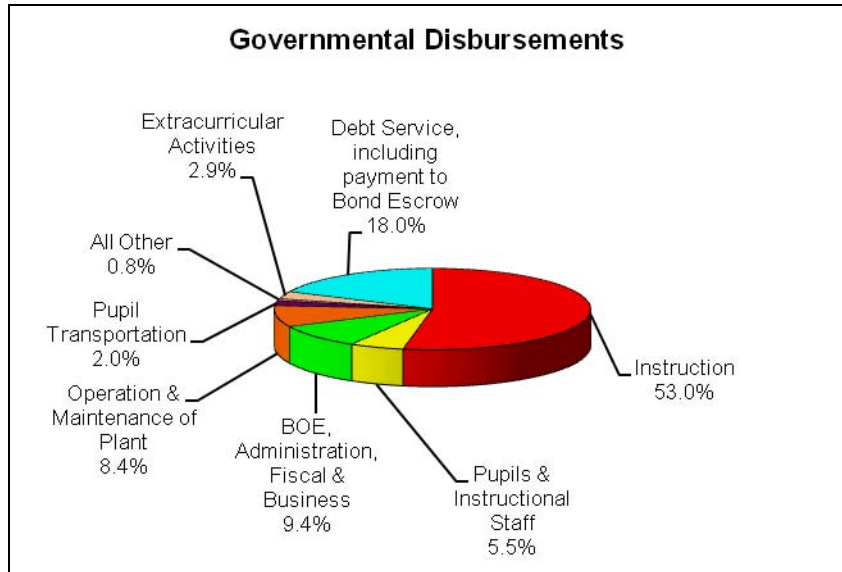
Total disbursements, excluding those disbursements for the refunding of bonds, have decreased from 2009 to 2010. The School District continued to streamline staffing positions throughout the School District, and did not replace a classified staffing position when a retirement occurred. In addition, the Board of Education and the Fort Recovery Education Association negotiated a zero percent salary increase for fiscal year 2010. Also, as mentioned earlier, expenses also decreased due to a large portion of the health care costs being charged to the new State Fiscal Stabilization Fund during 2010. This is a temporary movement of expenditure and not an actual decrease in expenditures.



Instruction comprises 53% of the School District's disbursements. Support services make up 26.1% of disbursements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**



If you look at the Statement of Activities on page 14 you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services.

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

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

**(Table 3)  
Governmental Activities**

	<b>Total Cost Of Services 2009</b>	<b>Net Cost of Services 2009</b>	<b>Total Cost Of Services 2010</b>	<b>Net Cost of Services 2010</b>
Instruction	\$6,011,016	(\$4,716,908)	\$ 5,900,669	(\$4,847,931)
<b>Support Services:</b>				
Pupils and Instructional Staff	629,376	(507,884)	614,991	(483,013)
Board of Education, Administration, Fiscal and Business	1,038,590	(1,037,748)	1,046,410	(927,393)
Operation and Maintenance of Plant	991,115	(989,815)	934,511	(903,049)
Pupil Transportation	372,208	(364,204)	224,959	(214,370)
Central	84,675	(84,675)	81,877	(74,561)
Operation of Non-Instructional Services	6,350	(6,350)	1,900	
Extracurricular Activities	293,660	(176,539)	326,985	(187,214)
Debt Service, includes payment to bond escrow	245,229	(245,229)	2,005,574	(2,005,574)
<b>Total Disbursements</b>	<b><u>\$9,672,219</u></b>	<b><u>(\$8,129,352)</u></b>	<b><u>\$11,137,876</u></b>	<b><u>(\$9,643,105)</u></b>

The dependence upon property tax receipts and income tax receipts is apparent, as over 31 percent of governmental activities are supported through these general receipts.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Business-Type Activities**

The School District's most significant business-type activity includes the operation of the food service program. Business-type activities had an increase of net assets of \$46,405 during fiscal year 2010. A reduction of expenses in 2010 of \$36,764 contributed to this increase. The School District will continue to monitor the charges for these services to ensure costs are covered.

**The School District's Funds**

Total governmental funds had receipts of \$9,659,778 and disbursements of \$9,460,869. Contributing to the increase in fund balances was the cost savings measures for material and supplies and personal services that the School District implemented during fiscal year 2010, and the one-time income tax receipt of \$220,000.

**Budgeting Highlights**

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

During the course of fiscal year 2010, the School District did modify its General Fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For fiscal year 2010, the School District anticipated \$1,450,839 in income taxes but received \$1,615,574, an increase of \$164,735. In addition, the School District received \$454,146 less in foundation monies for fiscal year 2010 than was originally anticipated.

The Termination Benefits fund balance decreased \$28,936 as a result of termination payments made during fiscal year 2010.

**Capital Assets and Debt Administration**

**Capital Assets**

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

**Debt**

At June 30, 2010, the School District's outstanding debt included \$2,130,938 in general obligation bonds issued for improvements to buildings and structures.

During fiscal year 2010, the School District refunded a portion of its 1998 School Improvement General Obligation Bonds resulting in a reduction its total debt service payments over the next twelve years by \$286,687.

For further information regarding the School District's debt, refer to Note 11 to the basic financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Current Issues**

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

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

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

The State funding for schools is based on several factors all of which are subject to deliberations and approval of the Ohio General Assembly. School funding beyond fiscal year 2011 will be set as part of the State's biennial budget for fiscal years 2012 and 2013. Due to the economic conditions within the State and the anticipated short fall in tax revenues in the next bi-annual budget, the level at which the State will fund schools is uncertain. A decrease in State funding equal to one percent of the School District's foundation revenue would decrease Unrestricted State Grants-in-Aid by approximately \$41,000 for the current fiscal year and each fiscal year thereafter. The cumulative effect of a one percent decrease in State funding on fund balance in fiscal year 2015 is a decrease of \$205,000. This would have a significant impact on the School District.

In May 2010, the Board unanimously passed a resolution to notify the Ohio School Facilities Commission of their intention to proceed with the High School facility project. After nearly six years of consideration, numerous OSFC updates, and more recently, two community input sessions, the Board approved Option 1 which is to add a High School wing onto the present PK-8 building. The first attempt at passing the required levy for this program failed on November 4, 2010. The next time that the Board will be able to approach the voters is May of 2011.

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

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

**Contacting the School District's Financial Management**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$3,420,864	\$182,497	\$3,603,361
Total Assets	<u>3,420,864</u>	<u>182,497</u>	<u>3,603,361</u>
<b>Net Assets:</b>			
<b>Restricted for:</b>			
Capital Projects	303,228		303,228
Debt Service	174,148		174,148
Other Purposes	298,576		298,576
Unrestricted	<u>2,644,912</u>	<u>182,497</u>	<u>2,827,409</u>
Total Net Assets	<u>\$3,420,864</u>	<u>\$182,497</u>	<u>\$3,603,361</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Program Cash Receipts</u>		
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>
<b>Governmental Activities:</b>			
<b>Instruction:</b>			
Regular	\$4,024,660	\$338,952	\$255,224
Special	1,549,244	25,757	421,485
Vocational	321,541	520	10,800
Other	5,224		
<b>Support Services:</b>			
Pupil	269,312	66,446	60,742
Instructional Staff	345,679	1	4,789
Board of Education	14,886		
Administration	754,922	732	90,160
Fiscal	268,976		28,125
Business	7,626		
Operation and Maintenance of Plant	934,511	850	30,612
Pupil Transportation	224,959	329	10,260
Central	81,877		7,316
Operation of Non-Instructional Services	1,900		1,900
Extracurricular Activities	326,985	138,871	900
Debt Service	328,567		
Payment to Refunded Bond Escrow Agent	1,677,007		
<b>Total Governmental Activities</b>	<u>11,137,876</u>	<u>572,458</u>	<u>922,313</u>
<b>Business-Type Activities:</b>			
Food Services	341,679	325,157	78,194
Preschool Program	70,121	51,226	
<b>Total Business-Type Activities</b>	<u>411,800</u>	<u>376,383</u>	<u>78,194</u>
<b>Totals</b>	<u>\$11,549,676</u>	<u>\$948,841</u>	<u>\$1,000,507</u>

**General Receipts:**

**Property Taxes Levied for:**

General Purposes

Debt Service

Classroom Facilities & Maintenance

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Gifts and Donations not Restricted to Specific Programs

Refunding Bonds Issued

Premium on Refunded Bonds Issued

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

*See accompanying notes to the financial statements.*



**Net (Disbursements) Receipts and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
(\$3,430,484)		(\$3,430,484)
(1,102,002)		(1,102,002)
(310,221)		(310,221)
(5,224)		(5,224)
(142,124)		(142,124)
(340,889)		(340,889)
(14,886)		(14,886)
(664,030)		(664,030)
(240,851)		(240,851)
(7,626)		(7,626)
(903,049)		(903,049)
(214,370)		(214,370)
(74,561)		(74,561)
(187,214)		(187,214)
(328,567)		(328,567)
(1,677,007)		(1,677,007)
<u>(9,643,105)</u>		<u>(9,643,105)</u>
	\$61,672	61,672
	<u>(18,895)</u>	<u>(18,895)</u>
	42,777	42,777
<u>(9,643,105)</u>	<u>42,777</u>	<u>(9,600,328)</u>
1,532,739		1,532,739
234,109		234,109
32,869		32,869
1,615,574		1,615,574
4,669,568		4,669,568
34,499		34,499
1,665,000		1,665,000
80,485		80,485
34,461		34,461
11,233	3,628	14,861
<u>9,910,537</u>	<u>3,628</u>	<u>9,914,165</u>
267,432	46,405	313,837
<u>3,153,432</u>	<u>136,092</u>	<u>3,289,524</u>
<u>\$3,420,864</u>	<u>\$182,497</u>	<u>\$3,603,361</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Termination Benefits Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and Cash Equivalents	\$2,299,751	\$345,161	\$775,952	\$3,420,864
Total Assets	<u>2,299,751</u>	<u>345,161</u>	<u>775,952</u>	<u>3,420,864</u>
<b>Fund Balances:</b>				
Reserved for Encumbrances	172,376	29,000	48,288	249,664
<b>Unreserved:</b>				
Designated for Termination Benefits		316,161		316,161
<b>Undesignated, Reported in:</b>				
General Fund	2,127,375			2,127,375
Special Revenue Funds			256,705	256,705
Debt Service Fund			173,711	173,711
Capital Projects Funds			297,248	297,248
Total Fund Balances	<u>\$2,299,751</u>	<u>\$345,161</u>	<u>\$775,952</u>	<u>\$3,420,864</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<b>General Fund</b>	<b>Termination Benefits Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Receipts:</b>				
Property Taxes	\$1,532,739		\$266,978	\$1,799,717
Income Taxes	1,615,574			1,615,574
Intergovernmental	4,602,909		956,389	5,559,298
Interest	34,461			34,461
Tuition and Fees	313,151			313,151
Rent	850			850
Extracurricular Activities			253,458	253,458
Gifts and Donations	10,805		56,277	67,082
Charges for Services	732			732
Miscellaneous	6,219		9,236	15,455
Total Receipts	<u>8,117,440</u>		<u>1,542,338</u>	<u>9,659,778</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,649,141		375,519	4,024,660
Special	1,132,580		416,664	1,549,244
Vocational	313,821		7,720	321,541
Other	5,224			5,224
<b>Support Services:</b>				
Pupil	170,869		98,443	269,312
Instructional Staff	325,632		20,047	345,679
Board of Education	14,886			14,886
Administration	631,651	\$28,936	94,335	754,922
Fiscal	234,532		34,444	268,976
Business	7,626			7,626
Operation and Maintenance of Plant	813,516		120,995	934,511
Pupil Transportation	214,370		10,589	224,959
Central	74,562		7,315	81,877
Operation of Non-Instructional Services			1,900	1,900
Extracurricular Activities	193,039		133,946	326,985
<b>Debt Service:</b>				
Principal Retirement			175,000	175,000
Interest			85,088	85,088
Issuance Costs			68,479	68,479
Total Disbursements	<u>7,781,449</u>	<u>28,936</u>	<u>1,650,484</u>	<u>9,460,869</u>
Excess of Receipts Over / (Under) Disbursements	<u>335,991</u>	<u>(28,936)</u>	<u>(108,146)</u>	<u>198,909</u>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers - In			170,000	170,000
Advances - In	35,600		95,000	130,600
Refunding Bonds Issued			1,665,000	1,665,000
Premium on Refunding Bonds Issued			80,485	80,485
Payment to Refunded Bond Escrow Agent			(1,677,007)	(1,677,007)
Operating Transfers - Out	(170,000)			(170,000)
Advances - Out	(95,000)		(35,600)	(130,600)
Proceeds from Sale of Assets	45			45
Total Other Financing (Uses) Sources	<u>(229,355)</u>		<u>297,878</u>	<u>68,523</u>
Net Change in Fund Balances	106,636	(28,936)	189,732	267,432
Fund Balances Beginning	<u>2,193,115</u>	<u>374,097</u>	<u>586,220</u>	<u>3,153,432</u>
Fund Balances End of Year	<u>\$2,299,751</u>	<u>\$345,161</u>	<u>\$775,952</u>	<u>\$3,420,864</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property and Other Local Taxes	\$1,432,625	\$1,432,625	\$1,532,739	\$100,114
Income Tax	1,450,839	1,450,839	1,615,574	164,735
Intergovernmental	5,057,055	5,057,055	4,602,909	(454,146)
Interest	68,515	68,515	34,461	(34,054)
Tuition and Fees	310,496	310,496	313,151	2,655
Rent	1,300	1,300	850	(450)
Gifts and Donations	3,075	3,075	10,805	7,730
Customer Sales and Services	842	842	732	(110)
Miscellaneous	15,396	15,396	6,219	(9,177)
<b>Total Revenues</b>	<u>8,340,143</u>	<u>8,340,143</u>	<u>8,117,440</u>	<u>(222,703)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,941,638	3,941,639	3,659,853	281,786
Special	1,233,768	1,233,768	1,146,493	87,275
Vocational	305,923	330,923	317,441	13,482
Student Intervention Services	12,747	12,747	5,224	7,523
<b>Support Services:</b>				
Pupils	195,166	195,166	170,869	24,297
Instructional Staff	384,735	384,735	334,624	50,111
Board of Education	32,929	32,929	17,664	15,265
Administration	810,458	810,458	638,972	171,486
Fiscal	302,559	302,559	262,023	40,536
Business	9,913	9,913	7,819	2,094
Operation and Maintenance of Plant	986,692	976,692	879,971	96,721
Pupil Transportation	302,363	302,363	245,271	57,092
Central	98,101	98,101	74,562	23,539
<b>Extracurricular Activities:</b>				
Academic Oriented Activities	27,094	29,094	22,380	6,714
Occupation Oriented Activities	643	1,643	1,525	118
Sport Oriented Activities	170,605	170,605	155,677	14,928
School and Public Service Co-Curricular Activities	16,629	16,629	13,457	3,172
<b>Total Expenditures</b>	<u>8,831,963</u>	<u>8,849,964</u>	<u>7,953,825</u>	<u>896,139</u>
Excess of Revenues Over (Under) Expenditures	<u>(491,820)</u>	<u>(509,821)</u>	<u>163,615</u>	<u>673,436</u>
<b>Other Financing Sources and Uses:</b>				
Advances In			35,600	35,600
Proceeds from Sale of Capital Assets	1,046	1,030	45	(985)
Transfers Out	(170,000)	(170,000)	(170,000)	
Advances Out	(92,000)	(92,000)	(95,000)	(3,000)
<b>Total Other Financing Sources and Uses</b>	<u>(260,954)</u>	<u>(260,970)</u>	<u>(229,355)</u>	<u>31,615</u>
Net Change in Fund Balances	(752,774)	(770,791)	(65,740)	705,051
Fund Balance (Deficit) at Beginning of Year	2,041,238	2,041,238	2,041,238	
Prior Year Encumbrances Appropriated	<u>151,877</u>	<u>151,877</u>	<u>151,877</u>	
Fund Balance (Deficit) at End of Year	<u>\$1,440,341</u>	<u>\$1,422,324</u>	<u>\$2,127,375</u>	<u>\$705,051</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS  
TERMINATION BENEFITS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	\$50,000	\$20,000	\$20,000	
Support Services:				
Administration	29,900	59,900	37,936	\$21,964
Total Expenditures	<u>79,900</u>	<u>79,900</u>	<u>57,936</u>	<u>21,964</u>
Net Change in Fund Balances	(79,900)	(79,900)	(57,936)	21,964
Fund Balance (Deficit) at Beginning of Year	344,197	344,197	344,197	
Prior Year Encumbrances Appropriated	<u>29,900</u>	<u>29,900</u>	<u>29,900</u>	
Fund Balance (Deficit) at End of Year	<u><u>\$294,197</u></u>	<u><u>\$294,197</u></u>	<u><u>\$316,161</u></u>	<u><u>\$21,964</u></u>

*See accompanying notes to the financial statements.*

FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
JUNE 30, 2010

	<b>Business - Type Activity</b>
	<b>Enterprise</b>
<b>Assets:</b>	
Cash and Cash Equivalents	\$182,497
Total Assets	<u>182,497</u>
<b>Net Assets:</b>	
Unrestricted	182,497
Total Net Assets	<u>\$182,497</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS -  
CASH BASIS PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<b>Business-Type Activity</b>
	<b>Enterprise</b>
<b>Operating Receipts:</b>	
Charges for Services	\$325,157
Tuition and Fees	51,226
Other Operating Revenues	3,628
Total Operating Receipts	380,011
<b>Operating Disbursements:</b>	
Salaries	174,542
Fringe Benefits	52,919
Purchased Services	4,594
Materials and Supplies	179,489
Other	256
Total Operating Disbursements	411,800
Operating Loss	(31,789)
<b>Non-Operating Receipts:</b>	
Federal and State Subsidies	78,194
Change in Net Assets	46,405
Net Assets Beginning of Year	136,092
Net Assets End of Year	\$182,497

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2010**

	<u>Agency</u>
<b>Assets:</b>	
Cash and Cash Equivalents	<u>\$55,417</u>
Total Assets	<u><u>55,417</u></u>
<b>Net Assets:</b>	
Held in Trust for Students	52,794
Held in Trust for Employees	<u>2,623</u>
Total Net Assets	<u><u>\$55,417</u></u>

*See accompanying notes to the financial statements.*



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District is located in a rural community in Northwest Ohio. The School District is located in Mercer County. The School District is staffed by 43 non-certificated employees and 68 certificated full-time teaching personnel who provide services to 984 students and other community members.

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

**A. Primary Government**

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

**B. Component Units**

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

The School District participates in five jointly governed organizations, three insurance purchasing pools and one related organization. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

Insurance Purchasing Pools:  
Ohio Association of School Business Officials Workers' Compensation Group  
Rating Plan  
Mercer Auglaize Employee Benefit Trust  
Ohio School Insurance Plan

Related Organization:  
Fort Recovery Public Library

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**1. Government-Wide Financial Statements**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**2. Fund Financial Statements**

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

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

**B. Fund Accounting**

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

**1. Governmental Funds**

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

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

**Termination Benefits Fund** – This fund is used to account for monies set-aside for future severance payouts.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**2. Proprietary Funds**

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

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

**3. Fiduciary Funds**

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

**C. Basis of Accounting**

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

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

**D. Cash and Investments**

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

During fiscal year 2010, the School District invested in nonnegotiable certificates of deposits, repurchase agreements and Fifth Third's Institutional Government Money Market Mutual Fund.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2010 was \$34,461, which included \$12,114 assigned from other School District funds.

**E. Inventory and Prepaid Items**

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

**F. Capital Assets**

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

**G. Interfund Receivables/Payables**

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

**H. Accumulated Leave**

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

**I. Employer Contributions to Cost-Sharing Pension Plans**

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

**J. Long-Term Obligations**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or laws through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**L. Fund Balance Reserves and Designations**

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

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

**M. Interfund Transactions**

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

**N. Operating Receipts and Disbursements**

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the School District, these receipts are tuition for preschool and sales for food service. Operating disbursements are necessary costs incurred to provide the good or service that are the primary activity of the fund. Receipts and disbursements that do not meet these definitions are reported as non-operating.

**O. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund. The legal level of control for the general fund is at the two digit function level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**3. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund and Termination Benefits Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding fiscal year-end encumbrances which are treated as cash disbursements (budget) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at fiscal year-end (budgetary basis) for the General Fund and the Termination Benefits Fund amounted to \$172,376 and \$29,000, respectively, at June 30, 2010.

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**A. Deposits**

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



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

At fiscal year-end, the carrying amount of the School District's deposits was \$1,137,289 and the bank balance was \$1,216,409. \$983,835 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$232,574 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

**B. Investments**

Investments are reported at fair value. As of June 30, 2010, the School District's investment included \$1,250,199 in repurchase agreements and \$1,271,290 in Fifth Third's Institutional Government Money Market Fund.

**Interest Rate Risk** – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements of ongoing operations. The average maturity of the Fifth Third Institutional Government Money Market Mutual Fund is 45 days.

**Credit Risk** – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. The Fifth Third Institutional Government Money Market Mutual Fund carries an S&P credit rating of AAAm.

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

The School District's \$1,250,199 investment in repurchase agreements is exposed to credit risk due to the underlying securities are held by the investment's counterparty or its trust department or agent, not in the School District's name.

**Concentration of Credit Risk** - The School District places no limits on the amount the School District may invest in any one issuer. The School District's investment percentage for repurchase agreements and the Fifth Third Institutional Government Money Market Mutual Fund are 50% and 50%, respectively.

**5. PROPERTY TAXES**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**5. PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied against local inter-change telephone companies in the prior calendar year on assessed values as of December 31, of that calendar year, at tax rates determined in the preceding year. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The percentages for telecommunications are 5 percent for 2010 and zero percent for 2011.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Public utility property taxes are payable on the same date as real property taxes described previously.

The School District receives property taxes from Mercer and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2010 taxes were collected are:

	<b>2009 Second- Half Collections</b>		<b>2010 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$81,701,790	96.59%	\$82,630,020	99.67%
Public Utility Personal	2,883,660	3.41%	272,930	0.33%
<b>Total</b>	<b>\$84,585,450</b>	<b>100.00%</b>	<b>\$82,902,950</b>	<b>100.00%</b>
Tax Rate per \$1,000 of Assessed Valuation	\$31.40		\$31.40	

**6. INCOME TAXES**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School District's property, fleet coverage, and liability insurance was provided by Ohio Casualty.

Coverage provided is as follows:

Building and Business Personal	
Property Coverage (\$1,000 deductible)	\$28,097,218
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Commercial General Liability:	
Each Occurrence	1,000,000
Medical Expense – any one person/each accident	15,000
General Aggregate Limit	2,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Aggregate	2,000,000
Educational Legal Liability:	
Errors and Omissions Injury – each wrongful act (\$2,500 deductible)	1,000,000
Errors and Omissions Injury Aggregate	1,000,000
Sexual Misconduct and Molestation Liability:	
Each Offense (\$2,500 deductible)	1,000,000
Aggregate	1,000,000

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

**B. Workers' Compensation**

For fiscal year 2010, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Effective August 31, 2009, Comp Management, Inc. provides the administrative, cost control and actuarial services to the GRP.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**C. Health Care Benefits**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$154,487, \$88,113, and \$80,673, respectively; 50.8 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

**Plan Description** - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$503,580, \$511,604, and \$490,295, respectively; 83.2 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose social security or the School Employees Retirement System. As of June 30, 2010, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**Medicare Part B Plan** – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending upon their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$9,187, \$7,270, and \$5,813, respectively; 50.8 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Health Care Plan** – ORC 3309.375 and 2209.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is .46 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$20,363, \$54,966, and \$51,455, respectively; 50.9 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

**B. State Teachers Retirement System of Ohio**

**Plan Description** – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$38,737, \$39,354, and \$17,448, respectively; 83.2 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation leave may be carried over from one year to the next and can be accumulated up to a 3 year maximum. Unused vacation time is paid to classified employees and administrators upon retirement. Teachers 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 210 days for all personnel. Upon retirement, employees who meet the State requirement of 10 years of service will receive payment for twenty-five percent of accrued, but unused sick leave credit to a maximum of 150 days for all employees, plus an addition one and one-half days for each year over twenty years of service in the Fort Recovery School System (60 day maximum).

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**10. OTHER EMPLOYEE BENEFITS (Continued)**

**B. Insurance Benefits**

The School District provides life insurance to most employees through AIG American General. Vision insurance is provided through the Vision Service Plan. Medical/surgical benefits and dental benefits are provided through CoreSource through the Mercer Auglaize Employee Benefit Trust (See Note 13).

**11. DEBT**

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	<u>Amount Outstanding 6/30/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2010</u>	<u>Amount Due in One Year</u>
<b>Governmental Activities:</b>					
1998 School Improvement Bonds					
Serial and Term Bonds 3.75% - 4.9%	\$1,845,000		(\$1,845,000)		
Capital Appreciation Bonds 7.5%	444,062	\$ 21,876		465,938	
2010 Classroom Facilities Refunding Bonds					
Serial Bonds 2% - 4%		1,665,000		1,665,000	\$175,000
Total Governmental Activities Long-Term Liabilities	<u>\$2,289,062</u>	<u>\$1,686,876</u>	<u>(\$1,845,000)</u>	<u>\$2,130,938</u>	<u>\$175,000</u>

**1998 School Improvement General Obligation Bonds** – On August 1, 1998, the School District issued \$3,389,193 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,705,000, \$1,500,000, and \$265,339, respectively. During fiscal year 2010, the School District refunded the serial and term portion of these bonds. The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For the fiscal year 2010, \$21,876 was accreted for total bond value of \$465,938. The bonds are being retired from the Bond Retirement debt service fund.

**2010 Classroom Facilities Refunding Bonds** – On June 3, 2010, the School District issued \$1,665,000 in general obligation bonds with interest rates between 2% to 4% to advance refund \$1,670,000 of the 1998 School Improvement General Obligation Bonds with interest rates between 3.75% to 4.9%. The net proceeds of \$1,667,007 (after payment of \$68,479 in underwriting fees, insurance and other issuance costs) were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 bonds. On July 6, 2010, these proceeds were then used to redeem the 1998 bonds at a redemption price of 100%.

The advance refunding resulted in the difference between reacquisition price and net carry amount of the old debt of \$7,662. The City completed the advance refunding to reduce its total debt service payments over the next twelve years by \$286,687 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$43,594.

The bonds are being retired from the Bond Retirement debt service fund.



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**11. DEBT (Continued)**

The School District's overall legal debt margin was \$5,786,213 and the un-voted debt margin was \$82,903 at June 30, 2010. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2010 are as follows:

<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 175,000	\$ 60,403
2012	173,143	70,757
2013	165,283	78,417
2014	157,512	85,988
2015	200,000	54,400
2016-2020	1,110,000	144,000
2021	150,000	3,000
Total	<u>\$2,130,938</u>	<u>\$496,965</u>

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

**12. SET-ASIDE REQUIREMENTS**

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2010.

	<u>Textbooks and Instructional Material</u>	<u>Capital Acquisitions</u>
Set-aside Reserve Balance as of June 30, 2009	(\$229,660)	
Current Year Set-aside Requirement	162,310	\$162,310
Qualifying Disbursements	(128,250)	(162,310)
Total	<u>(195,600)</u>	
Excess Available to Carry-Over to Subsequent Year	<u>(\$195,600)</u>	<u>\$ 0</u>

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND RELATED ORGANIZATION**

**A. Jointly Governed Organizations**

**Northwest Ohio Area Computer Services Cooperative** - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among school districts in Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Van Wert and Wood counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these school supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2010, the School District contributed \$26,941 to NOACSC. Financial information can be obtained by contacting Ray Burden, who serves as Director, at 645 South Main Street, Lima, OH 45804.

**Mercer County Local Professional Development Committee** - The School District is a participant in the Mercer County Local Professional Development Committee (Committee), which is a regional council of governments established to provide professional education license renewal standards and procedures. The Committee is governed by an eleven member board made up of six teachers, two principals, once superintendent, and two members employed by the Mercer County Educational Service Center. Board members serve terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District contributed \$136 to the Committee during the fiscal year. Financial information can be obtained from Mary Brandon, Treasurer of the Mercer County Educational Service Center at 441 East Market Street, Celina, Ohio 45822.

**West Central Ohio Special Education Regional Resource Center** – The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not make any contributions to SERRC during the fiscal year. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Harding County Education Service Center, 1211 W. Lima Street, Suite A, Kenton, Ohio 43326-2385.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**West Central Ohio Regional Professional Development Center** (Center) – The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District contributed \$0 to the Center during the fiscal year. Financial information can be obtained by contacting Greg Spiess, Treasurer, at the Hancock County Education Service Center, 7746 County Road 140, Findlay, Ohio 45840.

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

The School District contributed \$200 to NOERC during the fiscal year. Financial information can be obtained from Northwestern Ohio Educational Research Council, Inc., 441 E. Market Street, Celina, Ohio 45822.

**B. Insurance Purchasing Pools**

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**Ohio School Insurance Plan (Plan)** – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a board composed of officials from various member entities. The Hylant Administrative Services, LLC is the Plan's administrator and is responsible for processing claims. Financial information can be obtained from Ohio School Plan, c/o Hyland Administrative Services, LLC 811 Madison Avenue, P.O. Box 2083, Toledo, Ohio 43606-2083.

**C. Related Organization**

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

**14. INTERFUND BALANCES**

At June 30, 2009, the General Fund had an unpaid interfund cash advance, in the amount of \$3,600, for a short-term loan made to the Vocational Education Enhancements special revenue fund. The advance was repaid during fiscal year 2010. The General Fund also advanced \$7,000 during fiscal year 2009 to the Title I fund which was repaid during 2010. Finally in fiscal year 2009, the General Fund advanced \$7,000 to the Improving Teacher Quality Fund which was repaid during fiscal year 2010. These advances were due to the timing of the receipt of grants.

During fiscal year 2010, the School District advanced \$10,000, \$6,400, \$600, \$1,000, respectively, to the Preschool Grant, 5<sup>th</sup> Quarter grant, CTP Best Practices Grant, and Gifted Summer Camp Grant special revenue funds from the General Fund. These advances were necessary due to the timing of the receipt of grants and were repaid during fiscal year 2010.

At June 30, 2010, the General Fund had unpaid interfund cash advances in the amount of \$50,000, \$20,000, and \$7,000, respectively, to the IDEA Part VI B Stimulus, Title I and Improving Teacher Quality special revenue funds. These advances were due to the timing of the receipt of grants and are anticipated to be repaid in fiscal year 2011.

During fiscal year 2010, the School District transferred \$170,000 from the General Fund to the Permanent Improvement capital projects fund, which is shown with other governmental funds. The transfer was to provide for capital acquisitions.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**15. COMPLIANCE**

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

**16. CONTINGENT LIABILITIES**

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

**17. SUBSEQUENT EVENT**

On November 4, 2010, the voters of the School District rejected bond levies in the amount of 1.2 mills and 3.2 mills to add and furnish a High School wing onto the present PK-8 building. In addition, they rejected to extend the existing levy for the cost of maintaining classroom facilities constructed.

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**FT. RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND DISBURSEMENTS  
FOR YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>(Passed through Ohio Department of Education)</i>						
<b>Nutrition Cluster:</b>						
Non-Cash Assistance (food distribution)						
National School Lunch Program		10.555		\$13,740		\$13,740
Cash Assistance:						
National School Lunch Program		10.555	\$77,202		\$77,202	
Cash Assistance Subtotal			77,202		77,202	
Total Nutrition Cluster			77,202	13,740	77,202	13,740
Total U.S. Department of Agriculture			77,202	13,740	77,202	13,740
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>(Passed through Ohio Department of Education)</i>						
<i>Special Education Cluster:</i>						
Special Education Grants to States - ARRA	2010	84.391	82,369		82,380	
Title I Cluster:						
Title I Grants to Local Educational Agencies - ARRA	2010	84.389	9,598		9,160	
Title I Grants to Local Educational Agencies	2009	84.010	11,016		4,022	
	2010		54,677		55,425	
Total			65,693		59,447	
Total Title I Cluster			75,291		68,607	
Safe and Drug-Free School and Communities	2010	84.186	1,991		1,991	
Improving Teacher Quality	2009	84.367	3,846		4,516	
	2010		20,276		21,455	
Total Improving Teacher Quality			24,122		25,971	
State Fiscal Stabilization Fund Education State Grants - ARRA	2010	84.394	293,458		293,458	
Technology Literacy Challenge Grant	2010	84.318	613		613	
Total U.S. Department of Education			477,844		473,020	
Total Federal Assistance			\$555,046	\$13,740	\$550,222	\$13,740

See Accompanying Notes to the Schedule of Federal Awards Expenditures.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Disbursements (the Schedule) reports the School District's federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting disbursements on this Schedule, the School District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.





# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Recovery Local School District, Mercer County, (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 24, 2011, wherein we noted the District's statements followed the cash accounting basis instead of accounting principles generally accepted in the United States. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings at item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 24, 2011.

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

We intend this report solely for the information and use of the audit committee, management, and Board of Education, and federal awarding agencies and pass-through entities and others within the Government. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

January 24, 2011



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Fort Recovery Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect Fort Recovery Local School District's major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School District's major federal program. The School 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 School 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 School 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 School District's compliance with those requirements.

In our opinion, the Fort Recovery Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2010-002.

### Internal Control Over Compliance

The School 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned cost as item 2010-002 to be a material weakness.

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

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



**Dave Yost**  
Auditor of State

January 24, 2011

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COST  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #84.394 State Fiscal Stabilization Fund – Education State Grants - ARRA
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER - 2010-001**

**Noncompliance - Financial Reporting**

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

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

The District should prepare its annual financial statements in accordance with generally accepted accounting principles to include all assets, liabilities and disclosures to provide a complete presentation of its financial status.

**Official's Response:**

These citations were a result of the District not preparing its financial statements in accordance with generally accepted accounting principles (GAAP). The District has prepared its financial statements using an alternative cash basis of financial reporting by compiling and completing OCBOA (other comprehensive basis of accounting) financial reports for fiscal years ended June 30, 2010. While we admit that the Ohio Administrative Code requires the District to file our financial reports on a GAAP basis, the District believes that the financial costs associated with generating and auditing the reports on the GAAP basis, outweigh any benefits that the District may obtain from preparing and filing GAAP reports.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**FINDING NUMBER 2010-002**

**Allowable Cost**

<b>Finding Number</b>	2010-002
<b>CFDA Title and Number</b>	State Fiscal Stabilization Fund - #84.394
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE/MATERIAL WEAKNESS/QUESTIONED COST**

**American Recovery and Reinvestment Act of 2009 Public Law 111-8 Division A, Title XIV State Fiscal Stabilization Fund SEC. 14003 part b (1)** states a local educational agency may not use funds received under this title for payment of maintenance costs.

**Ohio Revised Code Section 3313.24** states that the treasurer “shall be paid from the general fund of the district”.

During fiscal year 2010, the District expended State Fiscal Stabilization Fund ARRA 2009-2010 grant funds on the following unallowable activities:

<b>QUESTIONED COST</b>	<b>DESCRIPTION</b>
\$10,277	Treasurer’s portion of health insurance premium
<u>\$29,417</u>	Maintenance’s portion of health insurance premium
\$39,694	Total State Fiscal Stabilization Fund ARRA 2009-2010 grant unallowable activity questioned costs.

State Fiscal Stabilization Fund monies must not provide services that are prohibited by law or ARRA legislation. The District should reimburse the State Fiscal Stabilization Fund from the General fund for \$39,694 questioned costs above.

**Official’s Response:**

I agree that the American Recovery and Reinvestment Act of 2009 Public Law 111-8 Division A, Title XIV State Fiscal Stabilization Fund SEC. 14003 part b (1) states a local educational agency may not use funds received under this title for payment of maintenance costs and that the Ohio Revised Code Section 3313.24 states that the treasurer “shall be paid from the general fund of the district”. However, I disagree with the fact that during fiscal year 2010, the audit period in question, that the issue of whether health care costs for the Treasurer and especially for maintenance workers of the district was an allowable cost out of the State Fiscal Stabilization ARRA Grant Fund or not. Guidance on this issue was NOT released from the Ohio Department of Education until September 17, 2010, which is AFTER the audit period that is currently being audited (July 1, 2009 through June 30, 2010). Now that this guidance has been published, and we are aware of the limitations, we will follow the guidelines, however, I do not feel that it is a fair citation by the Auditor of State’s Office to cite a School District for an issue that was not clarified to anyone in the State (including the Auditor of State’s Office) until after the audit period was complete.

**FINDING NUMBER 2010-002**  
**(Continued)**

**Auditor of State Conclusion:**

Even though Ohio Department of Education clarified the law on September 17, 2010, it was management responsibility to know the laws to which it is subject. The *American Recovery and Reinvestment Act* prohibition on maintenance spending was issued in 2009. The Ohio Revised Code requirement to pay treasurers from the general fund was last updated in 2007.



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	ORC 117.38 and OAC 117-2-03 (B) – Preparation and filing of cash basis annual financial report.	No	Repeated as finding 2010-001

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-002	Since receiving more guidance and rulings on allowable charges to Fund 532, the District will no longer charge anything toward function 2700 or for the Treasurer's insurance costs to code 2500. The District will also do corrective journal entries for any charges that have already been charged to Fund 532 toward these function codes.	Right Away – FY 2011	Lori Koch, Treasurer



# Dave Yost • Auditor of State

**FORT RECOVERY LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2011**