



**Auditor of State
Betty Montgomery**

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School District, Sandusky County, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School District, Sandusky County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 23.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

As discussed in Note 3, the District changed its capital asset threshold policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

May 26, 2004

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The discussion and analysis of Fremont City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2003 are as follows:

In total, net assets increased \$1,250,821, or 17 percent, a somewhat significant change from the prior fiscal year. The factors which had the greatest impact on this increase were an increase in intergovernmental receivables along with a reduction in overall payables at fiscal year end.

General revenues represented 81 percent of all revenues for fiscal year 2003 and reflect the School District's significant dependence on both income and property taxes as well as unrestricted state entitlements.

The School District continued to receive parity aid as part of the State foundation program in fiscal year 2003. Parity aid is distributed to low wealth school districts based on the valuation of real and personal property within their boundaries. In previous fiscal years, the use of this aid was restricted to funding additional programs, but in fiscal year 2003, these restrictions were lifted. The main component of the State foundation allocation is based on the three-year average daily membership (ADM) of students enrolled during the first week of October. For the past several years, the three-year average ADM has been declining. With the changes in State law approved as part of House Bill 95, the State funding of schools is no longer based on the three-year average ADM, but solely on the actual ADM. This will have a significant impact on our funding in fiscal year 2004.

The School District is self insured for medical, prescription drug, and dental insurance. In fiscal year 2002, employees were charged a flat rate of \$25 for their share of insurance premium costs, regardless of family or single policy coverage. Employees are currently charged 8.5 percent of their premium cost. This change in practice has reduced the School District's share of employee health insurance costs.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002:

Table 1 Net Assets Governmental Activities		
	2003	2002
Assets		
Current and Other Assets	\$ 16,205,270	\$ 17,061,850
Capital Assets, Net	11,735,259	12,230,938
<i>Total Assets</i>	27,940,529	29,292,788

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 1
Net Assets
Governmental Activities
(Continued)

	2003	2002
Liabilities		
Current and Other Liabilities	14,061,275	16,587,024
Long-Term Liabilities	5,477,590	5,554,921
<i>Total Liabilities</i>	19,538,865	22,141,945
 Net Assets		
Invested in Capital Assets, Net of Related Debt	10,890,259	11,285,938
Restricted	2,596,340	1,384,464
Unrestricted (Deficit)	(5,084,935)	(5,519,559)
<i>Total Net Assets</i>	\$ 8,401,664	\$ 7,150,843

Total assets decreased \$1,352,259, a little over 4 percent and a relatively insignificant change from the prior fiscal year. The only asset account reflecting much of a change from the prior fiscal year was intergovernmental receivables. In fiscal year 2002, the School District received the majority of its grant monies within the fiscal year. In fiscal year 2003, many of these grant monies were still due to the School District at fiscal year end.

Total liabilities decreased \$2,603,080, or almost 12 percent, again, not an overly insignificant change. However, there was a fairly sizable decrease in accounts payable of \$365,000. There were a greater number of capital projects related activities outstanding at the end of fiscal year 2002.

The increase in restricted net assets can be attributed to the items outlined above, greater receivables related to grant monies and greater cash balances available for capital related projects. The passage of an income tax levy in May 2003 will help alleviate the deficit unrestricted net assets.

Table 2 reflects the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 2
Change in Net Assets
Governmental Activities

Revenues	
Program Revenues:	
Charges for Services	\$ 1,033,223
Operating Grants, Contributions, and Interest	5,698,286
Capital Grants and Contributions	143,956
<i>Total Program Revenues</i>	<u>6,875,465</u>
General Revenues:	
Property Taxes Levied for General Purposes	13,273,753
Property Taxes Levied for Debt Service	152,805
Property Taxes Levied for Permanent Improvements	1,117,320
Income Taxes Levied for General Purposes	3,412,934
Payment in Lieu of Taxes	156,980
Grants and Entitlements	11,709,493
Interest	48,331
Rent	19,191
Miscellaneous	51,098
<i>Total General Revenues</i>	<u>29,941,905</u>
<i>Total Revenues</i>	<u>36,817,370</u>
Expenses	
Instruction:	
Regular	16,620,477
Special	3,859,875
Vocational	130,471
Support Services:	
Pupils	2,090,044
Instructional Staff	1,614,623
Board of Education	69,138
Administration	2,461,093
Fiscal	961,032
Business	92,046
Operation and Maintenance of Plant	3,140,175
Pupil Transportation	1,647,015
Central	77,823
Non-Instructional Services	2,071,943
Extracurricular Activities	611,085
Intergovernmental	67,395
Interest and Fiscal Charges	52,314
<i>Total Expenses</i>	<u>35,566,549</u>
Increase in Net Assets	<u>\$ 1,250,821</u>

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Program revenues only represent 19 percent of total revenues and primarily consist of restricted intergovernmental revenues, charges for tuition and fees and extracurricular activities, and food service sales.

As stated previously, general revenues are 81 percent of the School District's total revenues. Property taxes make up 49 percent of general revenues and income taxes 11 percent. With 60 percent of all revenues being generated locally through these taxes, our dependence on community support is significant. Unrestricted grants and entitlements, primarily State foundation resources, provide for 39 percent of general revenue support.

The major program expenses for governmental activities are for instruction, which accounts for 58 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 15 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, almost 9 percent. Therefore, approximately 82 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2002 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:		
Regular	\$ 16,620,477	\$ 15,521,507
Special	3,859,875	1,643,261
Vocational	130,471	130,471

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 3
Governmental Activities
(Continued)

	Total Cost of Services 2003	Net Cost of Services 2003
Support Services:		
Pupils	2,090,044	1,891,950
Instructional Staff	1,614,623	1,614,623
Board of Education	69,138	69,138
Administration	2,461,093	2,461,093
Fiscal	961,032	961,032
Business	92,046	92,046
Operation and Maintenance of Plant	3,140,175	3,140,175
Pupil Transportation	1,647,015	602,305
Central	77,823	77,823
Non-Instructional Services	2,071,943	179,327
Extracurricular Activities	611,085	450,440
Intergovernmental	67,395	(196,421)
Interest and Fiscal Charges	52,314	52,314
<i>Total Expenses</i>	<u>\$ 35,566,549</u>	<u>\$ 28,691,084</u>

Once again, the dependence upon tax revenues and unrestricted state entitlements for governmental activities is demonstrated in the above table. Almost 84 percent of instruction activities are supported through taxes and other general revenues. However, a little over half of the costs of providing special instruction are supported by program revenues, primarily grants restricted for special instruction purposes. Pupil transportation costs are also largely supported by program revenues made up of State foundation monies restricted for transportation and bus purchase allocations from the State. It should also be noted that 91 percent of non-instructional services costs are provided for through program revenues. These revenues consist of cafeteria sales and state and federal subsidies for cafeteria operations, but also include State monies received by the School District on behalf of the four parochial schools within the School District's boundaries. One item of note is the appearance of a profit related to intergovernmental expenses. This represents activities related to a history grant in which the Bowling Green State University and Rutherford B. Hayes Presidential Center are participants. The School District serves as the fiscal agent for the entire grant program.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$36,068,203 and expenditures \$35,041,808. The positive change of \$1,026,395, or over 348 percent, reflects significant improvement in the School District's financial standing from the prior fiscal year, especially in the General Fund which had a negative fund balance in fiscal year 2002 of \$454,468 and a negative balance in fiscal year 2003 of \$22,247. Factors contributing to this improvement include income tax collections, the replacement of retiring teachers with first-year teachers on a lower salary scale, and the elimination of parity aid restrictions. One issue which has lingered since fiscal year 2001 is the small cash balance in the School District's General Fund at fiscal year end. As a result, the statutorily required set aside for textbooks exceeded the cash balance in the General Fund again for fiscal year 2003.

General Fund Budgeting Highlights

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

During fiscal year 2003, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$28,965,890, were equal to original budgeted revenues due to adjustments the School District made near fiscal year end. The increase in actual property taxes from the final budget amount is due to advances the School District took against fiscal year 2004 property taxes.

Final expenditures were budgeted at \$29,589,316 while actual expenditures were \$29,663,440. This variance is very insignificant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$11,735,259 invested in capital assets (net of accumulated depreciation), a decrease of \$495,679, or approximately 4 percent. Due to limited resources, additions to capital assets were very restricted in fiscal year 2003. For further information regarding the School District's capital assets, refer to Note 11 to the basic financial statements.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Debt

The School District's outstanding debt at June 30, 2003, consisted of general obligation bonds, in the amount of \$845,000. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

Current Issues

The School District had projected a deficit cash position for fiscal year 2003 on the five-year forecast submitted to the Department of Education. As a result, the School District was placed in Fiscal Caution on April 10, 2003. As part of the School District's recovery plan, the Board of Education placed an additional five-year, 0.5 percent income tax levy on the ballot in May 2003. The revenue to be generated from the addition is \$2,380,000 annually. The levy was successful and brought the full income tax rate for the School District to 1.25 percent. Due to the eighteen month timeline to realize full collection of the additional tax, the School District had to issue revenue anticipation notes in January 2004, in the amount \$1,100,000, to alleviate cash flow issues.

Contacting the School District's Financial Management

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

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**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Net Assets
June 30, 2003**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,938,836
Cash and Cash Equivalents	
with Fiscal Agent	93,114
Investments	79,640
Accounts Receivable	30,339
Accrued Interest Receivable	4,533
Intergovernmental Receivable	776,016
Income Taxes Receivable	1,315,843
Due from External Parties	409
Prepaid Items	81,030
Inventory Held for Resale	7,755
Materials and Supplies Inventory	77,515
Property Taxes Receivable	11,710,012
Payment in Lieu of Taxes Receivable	73,935
Judgment Receivable	5,294
Notes Receivable	10,999
Nondepreciable Capital Assets	409,270
Depreciable Capital Assets, Net	11,325,989
<i>Total Assets</i>	27,940,529
Liabilities:	
Accounts Payable	115,794
Accrued Wages and Benefits Payable	2,895,033
Matured Compensated Absences Payable	19,811
Special Termination Benefits Payable	55,049
Intergovernmental Payable	943,229
Claims Payable	534,700
Accrued Interest Payable	4,155
Deferred Revenue	9,493,504
Long-Term Liabilities:	
Due Within One Year	314,224
Due in More Than One Year	5,163,366
<i>Total Liabilities</i>	19,538,865
Net Assets:	
Invested in Capital Assets, Net of Related Debt	10,890,259
Restricted For:	
Set Asides	839,923
Capital Projects	601,775
Other Purposes	1,153,188
Betterment and Maintenance:	
Expendable	454
Nonexpendable	1,000
Unrestricted (Deficit)	(5,084,935)
<i>Total Net Assets</i>	\$ 8,401,664

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	<u>Expenses</u>
Governmental Activities	
Instruction:	
Regular	\$ 16,620,477
Special	3,859,875
Vocational	130,471
Support Services:	
Pupils	2,090,044
Instructional Staff	1,614,623
Board of Education	69,138
Administration	2,461,093
Fiscal	961,032
Business	92,046
Operation and Maintenance of Plant	3,140,175
Pupil Transportation	1,647,015
Central	77,823
Non-Instructional Services	2,071,943
Extracurricular Activities	611,085
Intergovernmental	67,395
Interest and Fiscal Charges	52,314
<i>Total Governmental Activities</i>	<u><u>\$ 35,566,549</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services	Program Revenues		Governmental Activities	Net (Expense) Revenue and Change in Net Assets
	Operating Grants, Contributions, and Interest	Capital Grants and Contributions		
\$ 238,446	\$ 837,021	\$ 23,503	\$ (15,521,507)	
-	2,216,614	-	(1,643,261)	
-	-	-	(130,471)	
37,900	102,305	57,889	(1,891,950)	
-	-	-	(1,614,623)	
-	-	-	(69,138)	
-	-	-	(2,461,093)	
-	-	-	(961,032)	
-	-	-	(92,046)	
-	-	-	(3,140,175)	
-	982,146	62,564	(602,305)	
-	-	-	(77,823)	
635,782	1,256,834	-	(179,327)	
121,095	39,550	-	(450,440)	
-	263,816	-	196,421	
-	-	-	(52,314)	
<u>\$ 1,033,223</u>	<u>\$ 5,698,286</u>	<u>\$ 143,956</u>	<u>(28,691,084)</u>	

General Revenues:

Property Taxes Levied for General Purposes	13,273,753
Property Taxes Levied for Debt Service	152,805
Property Taxes Levied for Permanent Improvements	1,117,320
Income Taxes Levied for General Purposes	3,412,934
Payment in Lieu of Taxes	156,980
Grants and Entitlements not Restricted to Specific Progr	11,709,493
Interest	48,331
Rent	19,191
Miscellaneous	51,098
<i>Total General Revenues</i>	<u>29,941,905</u>
Change in Net Assets	1,250,821
<i>Net Assets Beginning of Year - Note 3</i>	<u>7,150,843</u>
<i>Net Assets End of Year</i>	<u><u>\$ 8,401,664</u></u>

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003**

	General	Other Governmental	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 1,264,146	\$ 1,264,146
Cash and Cash Equivalents with Fiscal Agent	93,114	-	93,114
Investments	-	79,640	79,640
Accounts Receivable	11,441	18,898	30,339
Accrued Interest Receivable	4,533	-	4,533
Intergovernmental Receivable	2,285	773,731	776,016
Income Taxes Receivable	1,315,843	-	1,315,843
Interfund Receivable	81,762	-	81,762
Due from External Parties	409	-	409
Prepaid Items	26,496	2,755	29,251
Inventory Held for Resale	-	7,755	7,755
Materials and Supplies Inventory	74,248	3,267	77,515
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	235,683	-	235,683
Property Taxes Receivable	10,686,734	1,023,278	11,710,012
Payment in Lieu of Taxes Receivable	-	73,935	73,935
Judgment Receivable	-	5,294	5,294
Notes Receivable	-	10,999	10,999
<i>Total Assets</i>	<u>\$ 12,532,548</u>	<u>\$ 3,263,698</u>	<u>\$ 15,796,246</u>

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003
(Continued)**

	General	Other Governmental	Total Governmental Funds
Liabilities and Fund Balances			
<u>Liabilities</u>			
Accounts Payable	\$ 4,166	\$ 111,628	\$ 115,794
Accrued Wages and Benefits Payable	2,649,013	246,020	2,895,033
Matured Compensated Absences Payable	19,811	-	19,811
Intergovernmental Payable	614,924	45,415	660,339
Interfund Payable	-	81,762	81,762
Deferred Revenue	9,266,881	1,435,720	10,702,601
<i>Total Liabilities</i>	<u>12,554,795</u>	<u>1,920,545</u>	<u>14,475,340</u>
<u>Fund Balances:</u>			
Reserved for Property Taxes	1,653,111	186,434	1,839,545
Reserved for Textbooks	839,923	-	839,923
Reserved for Notes Receivable	-	10,999	10,999
Reserved for Unclaimed Monies	14,649	-	14,649
Reserved for Encumbrances	31,047	646,237	677,284
Unreserved, Reported in:			
General Fund (Deficit)	(2,560,977)	-	(2,560,977)
Special Revenue Funds	-	548,271	548,271
Capital Projects Funds (Deficit)	-	(50,242)	(50,242)
Permanent Fund	-	1,454	1,454
<i>Total (Deficit) Fund Balances</i>	<u>(22,247)</u>	<u>1,343,153</u>	<u>1,320,906</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 12,532,548</u>	<u>\$ 3,263,698</u>	<u>\$ 15,796,246</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003**

Total Governmental Fund Balances	\$ 1,320,906
 <i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,735,259
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Accounts Receivable	21,735
Accrued Interest Receivable	38
Intergovernmental Receivable	570,758
Income Taxes Receivable	221,770
Property Taxes Receivable	382,257
Payment in Lieu of Taxes Receivable	<u>12,539</u>
	1,209,097
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.	(282,890)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Special Termination Benefits Payable	(55,049)
Accrued Interest Payable	(4,155)
General Obligation Bonds Payable	(845,000)
Compensated Absences Payable	<u>(4,632,590)</u>
	(5,536,794)
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.	<u>(43,914)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 8,401,664</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	General	Other Governmental	Total Governmental Funds
Revenues			
Property Taxes	13,128,519	1,250,516	14,379,035
Income Taxes	3,375,264	-	3,375,264
Payment in Lieu of Taxes	59,799	84,642	144,441
Intergovernmental	13,430,307	3,436,443	16,866,750
Interest	48,331	3,719	52,050
Tuition and Fees	135,134	106,750	241,884
Extracurricular Activities	-	189,559	189,559
Charges for Services	-	607,416	607,416
Rent	17,353	-	17,353
Gifts and Donations	-	4,959	4,959
Miscellaneous	104,199	85,293	189,492
<i>Total Revenues</i>	<u>30,298,906</u>	<u>5,769,297</u>	<u>36,068,203</u>
Expenditures			
Current:			
Instruction:			
Regular	15,836,904	409,303	16,246,207
Special	2,753,030	1,082,559	3,835,589
Vocational	148,671	7,734	156,405
Support Services:			
Pupils	1,927,463	192,372	2,119,835
Instructional Staff	1,009,482	602,238	1,611,720
Board of Education	67,810	-	67,810
Administration	2,357,227	50,206	2,407,433
Fiscal	686,079	50,771	736,850

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(Continued)**

	General	Other Governmental	Total Governmental Funds
Expenditures (Continued)			
Business	89,528	-	89,528
Operation and Maintenance of Plant	2,695,504	28,716	2,724,220
Pupil Transportation	1,428,529	23,042	1,451,571
Central	60,145	11,001	71,146
Non-Instructional Services	5,612	2,034,158	2,039,770
Extracurricular Activities	528,639	160,261	688,900
Capital Outlay	-	574,624	574,624
Intergovernmental	-	67,395	67,395
Debt Service:			
Principal Retirement	-	100,000	100,000
Interest and Fiscal Charges	-	52,805	52,805
<i>Total Expenditures</i>	<u>29,594,623</u>	<u>5,447,185</u>	<u>35,041,808</u>
<i>Excess of Revenues Over Expenditures</i>	<u>704,283</u>	<u>322,112</u>	<u>1,026,395</u>
Other Financing Sources (Uses)			
Transfers In	-	272,062	272,062
Transfers Out	(272,062)	-	(272,062)
<i>Total Other Financing Sources (Uses)</i>	<u>(272,062)</u>	<u>272,062</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	432,221	594,174	1,026,395
<i>Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)</i>	<u>(454,468)</u>	<u>748,979</u>	<u>294,511</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ (22,247)</u>	<u>\$ 1,343,153</u>	<u>\$ 1,320,906</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ 1,026,395

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

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

Capital Outlay	143,672	
Depreciation	(639,351)	
		(495,679)

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

Property Taxes	164,843	
Income Taxes	37,670	
Payment in Lieu of Taxes	12,539	
Intergovernmental	551,314	
Interest	(1,563)	
Tuition and Fees	9,911	
Extracurricular Activities	(202)	
Charges for Services	189	
Rent	1,838	
Miscellaneous	(19,350)	
		757,189

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 100,000

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net assets. 491

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

Intergovernmental Payable	(37,465)	
Special Termination Benefits Payable	38,246	
Compensated Absences Payable	(22,669)	
		(21,888)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. (115,687)

Change in Net Assets of Governmental Activities \$ 1,250,821

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Revenues				
Property Taxes	\$ 11,491,842	\$ 11,347,099	\$ 12,229,926	\$ 882,827
Income Taxes	3,650,000	3,650,000	3,536,532	(113,468)
Payment in Lieu of Taxes	20,000	20,000	160,561	140,561
Intergovernmental	13,548,548	13,693,291	13,279,265	(414,026)
Interest	75,000	75,000	51,868	(23,132)
Tuition and Fees	127,000	127,000	135,184	8,184
Rent	15,000	15,000	17,103	2,103
Miscellaneous	38,500	38,500	101,091	62,591
<i>Total Revenues</i>	<u>28,965,890</u>	<u>28,965,890</u>	<u>29,511,530</u>	<u>545,640</u>
Expenditures				
Current:				
Instruction:				
Regular	15,083,726	15,147,173	15,068,649	78,524
Special	3,127,432	3,003,774	2,724,491	279,283
Vocational	148,814	149,601	158,122	(8,521)
Other	826,237	725,783	931,674	(205,891)
Support Services:				
Pupils	1,889,755	1,902,435	1,845,929	56,506
Instructional Staff	978,468	941,191	984,807	(43,616)
Board of Education	75,430	76,182	66,848	9,334
Administration	2,426,818	2,332,119	2,375,515	(43,396)
Fiscal	598,955	583,378	687,220	(103,842)
Business	88,271	89,155	89,333	(178)
Operation and Maintenance of Plant	2,354,340	2,638,374	2,725,981	(87,607)
Pupil Transportation	1,363,961	1,373,292	1,407,798	(34,506)
Central	70,255	70,255	63,957	6,298
Non-Instructional Services	305	305	5,399	(5,094)
Extracurricular Activities	556,549	556,299	527,717	28,582
<i>Total Expenditures</i>	<u>29,589,316</u>	<u>29,589,316</u>	<u>29,663,440</u>	<u>(74,124)</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(623,426)</u>	<u>(623,426)</u>	<u>(151,910)</u>	<u>471,516</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	-	-	1,833	1,833
Advances In	233,248	233,248	247,110	13,862
Advances Out	(25,000)	(50,000)	(99,983)	(49,983)
Transfers Out	(25,000)	-	(254,837)	(254,837)
<i>Total Other Financing Sources (Uses)</i>	<u>183,248</u>	<u>183,248</u>	<u>(105,877)</u>	<u>(289,125)</u>
<i>Change in Fund Balance</i>	<u>(440,178)</u>	<u>(440,178)</u>	<u>(257,787)</u>	<u>182,391</u>
<i>Fund Balance at Beginning of Year</i>	354,125	354,125	354,125	-
Prior Year Encumbrances Appropriated	108,167	108,167	108,167	-
<i>Fund Balance at End of Year</i>	<u>\$ 22,114</u>	<u>\$ 22,114</u>	<u>\$ 204,505</u>	<u>\$ 182,391</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Fund Net Assets
Proprietary Fund
June 30, 2003**

	<u>Governmental Activity Internal Service Fund</u>
Assets	
<u>Current Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 439,007
Prepaid Items	51,779
	<hr/>
<i>Total Current Assets</i>	490,786
Liabilities	
<u>Current Liabilities:</u>	
Claims Payable	534,700
	<hr/>
Net Assets	
Unrestricted (Deficit)	<u><u>\$ (43,914)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Operating Revenues	
Charges for Services	\$ 3,823,248
Operating Expenses	
Purchased Services	653,949
Claims	<u>3,284,986</u>
<i>Total Operating Expenses</i>	<u>3,938,935</u>
<i>Operating Loss</i>	(115,687)
<i>Net Assets at Beginning of Year</i>	<u>71,773</u>
<i>Net Assets (Deficit) at End of Year</i>	<u><u>\$ (43,914)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

	Governmental Activity
	Internal Service Fund
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<i>Cash Flow from Operating Activities:</i>	
Cash Received from Transactions with Other Funds	\$ 3,823,248
Cash Payments for Goods and Services	(705,728)
Cash Payments for Claims	(3,320,286)
	(202,766)
<i>Net Decrease in Cash and Cash Equivalents</i>	(202,766)
<i>Cash and Cash Equivalents at Beginning of Year</i>	641,773
	\$ 439,007
	\$ 439,007
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (115,687)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Increase in Prepaid Items	(51,779)
Decrease in Claims Payable	(35,300)
	(87,079)
<i>Net Cash Used for Operating Activities</i>	\$ (202,766)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Net Assets
Fiduciary Funds
June 30, 2003**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 5,067	\$ 92,665
Investments	37,500	-
	42,567	-
<i>Total Assets</i>	42,567	\$ 92,665
Liabilities		
Undistributed Assets	-	\$ 92,256
Due to External Parties	-	409
	-	409
<i>Total Liabilities</i>	-	\$ 92,665
Net Assets		
Held in Trust for Scholarships	5,067	
Endowments	37,500	
	42,567	
<i>Total Net Assets</i>	\$ 42,567	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$ 1,123
Deductions	
Non-Instructional Services	<u>1,990</u>
<i>Change in Net Assets</i>	(867)
<i>Net Assets Beginning of Year</i>	<u>43,434</u>
<i>Net Assets End of Year</i>	<u><u>\$ 42,567</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred sixty-two square miles. It is located in central Sandusky County, including all of the City of Fremont and portions of surrounding townships. The School District is the 80th largest in the State of Ohio (among 612 school districts) in terms of enrollment and the largest in Sandusky County. It is staffed by two hundred twenty-two classified employees, two hundred ninety three certified teaching personnel, and twenty-two administrative employees who provide services to 4,489 students and other community members. The School District currently operates seven elementary schools, a middle school, and a comprehensive high school.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fremont City School District, this includes general operations, food service, preschool, and student related activities of the School District.

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

The following activities are included within the School District's reporting entity:

WSOS Preschool Program - The School District serves as fiscal agent for a four county consortium (Sandusky, Seneca, Ottawa, and Wood) which provides preschool programs for children in these counties. Current state legislation provides funding for this program. The monies are received and disbursed on behalf of WSOS by the Treasurer of the School District, as directed by WSOS. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

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

The School District participates in four jointly governed organizations and two insurance pools. These organizations are the Northern Ohio Educational Computer Association, the Northwestern Ohio Educational Research Council, Inc., the Vanguard-Sentinel Career Center, the Northwest Ohio Special Education Regional Resource Center, the Ohio School Plan, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 21 and 22 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

B. Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Fund

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's Self Insurance internal service fund accounts for the activities of the program for employee health care benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-managed and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are 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 expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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.

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

F. Cash and Investments

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

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

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2003 was \$48,331.

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

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of ten thousand dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Description	Useful Lives
Land Improvements	7 years
Buildings and Building Improvements	5 - 75 years
Furniture, Fixtures, and Equipment	3 - 25 years
Vehicles	7 years

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Fund Balance Reserves

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

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

**FREMONT CITY SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2003
(Continued)**

P. Operating Revenues and Expenses

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

Q. Interfund Transactions

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

R. Extraordinary and Special Items

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

S. Estimates

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES, CORRECTION OF AN ERROR,
AND RESTATEMENT OF FUND BALANCE**

A. Change in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management’s Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District’s financial statements for fiscal year 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For fiscal year 2003, the School District has increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$200 to \$10,000.

B. Correction of an Error

In the prior fiscal year, the School District recorded several capital leases. However, these items did not meet the qualifications for recording as a capital lease.

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

C. Restatement of Fund Balance

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2002	\$ (402,006)	\$ 815,999	\$ 413,993
Correction of an Error	(3,452)	(105,704)	(109,156)
GASB Statement No. 34 Adjustment:			
Change in Fund Structure	14,334	174,231	188,565
GASB Interpretation No. 6 Adjustments:			
Compensated Absences	(119,558)	(135,547)	(255,105)
Special Termination Benefits	<u>56,214</u>	<u>-</u>	<u>56,214</u>
<i>Adjusted Fund Balance</i>	<u><u>\$ (454,468)</u></u>	<u><u>\$ 748,979</u></u>	294,511
GASB Statement No. 34 Adjustments:			
Accounts Receivable			29,349
Accrued Interest Receivable			1,601
Intergovernmental Receivable			19,444
Income Taxes Receivable			184,100
Property Taxes Receivable			217,414
Capital Assets			12,230,938
Special Termination Benefits Payable			(93,295)
Intergovernmental Payable			(245,425)
Accrued Interest Payable			(4,646)
General Obligation Bonds Payable			(945,000)
Compensated Absences Payable			(4,609,921)
Internal Service Fund			<u>71,773</u>
<i>Governmental Activities Net Assets at June 30, 2002</i>			<u><u>\$ 7,150,843</u></u>

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2003, the General Fund, the Food Service, Disadvantaged Pupil Impact Aid, and Title VI-B special revenue funds, and the Title II-D Technology capital projects fund had deficit fund balances, in the amount of \$22,247, \$44,987, \$6,182, \$20,947, and \$2,120, respectively, resulting from adjustments for accrued liabilities.

For fiscal year 2003, the Self Insurance internal service fund charged other funds a sufficient amount to cover claims expenses; however, did not charge enough to cover administration costs. As a result, the fund had deficit net assets at the end of the fiscal year, in the amount of \$43,914.

B. Compliance

For fiscal year 2003, the School District's required reserve for textbooks exceeded the available cash balance in the General Fund; therefore, the restricted assets reflected on the balance sheet were limited to the available cash balance.

The District did not certify funds as required by Ohio Revised Code §5705.41(D).

The following funds had expenditures plus encumbrances in excess of appropriations throughout fiscal year 2003:

<u>Fund</u>	<u>Date</u>	<u>Appropriations</u>	Expenditures plus Encumbrances	<u>Variance</u>
General fund	June 30, 2003	\$ 29,639,315	\$ 29,913,669	\$ (274,354)
Food Service fund	May 31, 2003	1,191,364	1,290,726	(99,362)
	June 30, 2003	1,191,364	1,357,568	(166,204)
Self-Insurance fund	January 31, 2003	3,500,000	4,310,603	(810,603)
	February 28, 2003	3,500,000	4,310,603	(810,603)

(Continued)

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Fund	Date	Appropriations	Expenditures plus Encumbrances	Variance
(Continued)				
	March 31, 2003	3,500,000	4,306,257	(806,257)
	April 30, 2003	3,500,000	4,306,257	(806,257)
	May 31, 2003	3,500,000	4,306,257	(806,257)
	June 30, 2003	3,500,000	4,026,015	(526,015)
Auxiliary Services fund	March 31, 2003	292,462	394,762	(102,300)
	April 30, 2003	292,462	431,398	(138,936)
	May 31, 2003	292,462	514,032	(221,570)

Expenditures plus encumbrances exceeded appropriations for the Permanent Improvement, Trust, Endowment, Uniform School Supply, Nautilus, American History Grant, Public School Support, Local Grant, Auxiliary Services, SchoolNet Professional Development, OhioReads, Title VI, Drug Free School Grant, E-Rate Grant, and Miscellaneous Federal Grants funds in amounts ranging from \$67 to \$70,049.

The Treasurer is monitoring all budgetary controls to avoid future violations of budgetary compliance.

Contrary to Ohio law, the following funds had negative cash balances as follows:

Date	Fund	Deficit Amount
December 31, 2002	General	\$ 581,559
	Permanent Improvement	393,216
February 28, 2003	Permanent Improvement	\$ 156,119
	Self-Insurance	1,135,701
May 31, 2003	General	\$ 1,770,020
	Permanent Improvement	111,818
	Food Service	102,475
	Self-Insurance	163,348

Ten other funds had deficit balances in amounts ranging from \$496 to \$39,001.

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

	Net Change in Fund Balance
GAAP Basis	\$ 432,221
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	2,119,863
Accrued FY 2003, Not Yet Received in Cash	(2,754,364)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(3,443,323)
Accrued FY 2003, Not Yet Paid in Cash	3,287,914
Prepaid Items	(3,739)

(Continued)

**FREMONT CITY SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2003
(Continued)**

Net Change in Fund Balance (Continued)

Materials and Supplies Inventory	13,154
Advances In	247,110
Advances Out	(99,983)
Excess of Revenues Over Expenditures for Nonbudgeted Funds	(25,462)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(31,178)
	(31,178)
Budget Basis	\$ (257,787)

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

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

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

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For the Fiscal Year Ended June 30, 2003
(Continued)**

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$1,522 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents". The School District also had \$93,114 in cash and cash equivalents which is included as "Cash and Cash Equivalents with Fiscal Agent". This represents monies held by the Sandusky County Educational Service Center who holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the School District's deposits was \$2,152,186 and the bank balance was \$2,789,883. Of the bank balance, \$225,837 was covered by federal depository insurance and \$2,564,046 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 2,129,682	\$ 117,140
Cash on Hand	(1,522)	-
Cash and Cash Equivalents with Educational Service Center	(93,114)	-
Investments:		
Certificates of Deposit	117,140	(117,140)
GASB Statement No. 3	\$ 2,152,186	\$ -

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of accounts (rent, billings for user charged services, and student fees), accrued interest, intergovernmental, income taxes, payment in lieu of taxes, interfund, judgment, notes, amounts due from external parties, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for the judgment receivable and notes receivable, in the amount of \$5,294 and \$10,999, respectively, are considered collectible within one year. Judgment receivable represents court ordered repayments on defaulted student loans. Notes receivable represent loans made to students for higher education and are repaid according to payment schedules made with the various students.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Homestead and Rollback	\$ 1,199
Miscellaneous	1,086
Total General Fund	2,285

(Continued)

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	Amount
Governmental Activities (Continued)	
Other Governmental Funds	
Food Service	1,167
American History Grant	254,886
Other Local Grants	11,120
Miscellaneous State Grants	4,582
Migrant Education	21,007
Eisenhower	8,935
Title VI-B	213,710
Title I	203,903
Title VI	16,837
Drug Free	7,229
Title II-A	28,131
Permanent Improvement	104
Title II-D Technology	2,120
Total Other Governmental Funds	773,731
<i>Total Governmental Activities</i>	\$ 776,016

NOTE 8 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. Of this amount, .75 percent of the tax was effective on January 1, 1999, and .5 percent of the tax was approved by the voters in May 2003 and became effective on January 1, 2004. Both will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 9 - PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if

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(Continued)**

their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires.

NOTE 10 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Sandusky County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$1,653,111 in the General Fund and \$186,434 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$754,518 in the General Fund and \$72,804 in the Permanent Improvement capital projects fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 424,382,780	77.53%	\$ 427,621,550	77.24%
Public Utility	25,128,850	4.59%	25,545,340	4.61%
Tangible Personal	97,861,533	17.88%	100,505,335	18.15%
Total Assessed Value	<u>\$ 547,373,163</u>	<u>100.00%</u>	<u>\$ 553,672,225</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 34.10		\$ 34.10	

NOTE 11 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy:

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For the Fiscal Year Ended June 30, 2003
(Continued)**

	Balance at 06/30/02	Adjustments	Restated Balance at 06/30/02
Governmental Activities			
Nondepreciable Capital Assets			
Land	\$ -	\$ 409,270	\$ 409,270
Depreciable Capital Assets			
Land Improvements	439,086	(211,746)	227,340
Buildings and Building Improvements	15,466,012	1,540,671	17,006,683
Furniture, Fixtures, and Equipment	5,419,528	(4,637,800)	781,728
Vehicles	2,775,160	(10,379)	2,764,781
<i>Total Depreciable Capital Assets</i>	<u>24,099,786</u>	<u>(3,319,254)</u>	<u>20,780,532</u>
Less Accumulated Depreciation			
Land Improvements		(32,181)	(32,181)
Buildings and Building Improvements		(6,384,857)	(6,384,857)
Furniture, Fixtures, and Equipment	(290,517)	(30,939)	(321,456)
Vehicles		(2,220,370)	(2,220,370)
<i>Total Accumulated Depreciation</i>	<u>(290,517)</u>	<u>(8,668,347)</u>	<u>(8,958,864)</u>
Depreciable Capital Assets, Net	<u>23,809,269</u>	<u>(11,987,601)</u>	<u>11,821,668</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 23,809,269</u>	<u>\$ (11,578,331)</u>	<u>\$ 12,230,938</u>

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 409,270	\$ -	\$ -	\$ 409,270
Depreciable Capital Assets				
Land Improvements	227,340	-	-	227,340
Buildings and Building Improvements	17,006,683	-	-	17,006,683
Furniture, Fixtures, and Equipment	781,728	143,672	(18,197)	907,203
Vehicles	2,764,781	-	-	2,764,781
<i>Total Depreciable Capital Assets</i>	<u>20,780,532</u>	<u>143,672</u>	<u>(18,197)</u>	<u>20,906,007</u>
Less Accumulated Depreciation				
Land Improvements	(32,181)	(32,477)	-	(64,658)
Buildings and Building Improvements	(6,384,857)	(379,004)	-	(6,763,861)
Furniture, Fixtures, and Equipment	(321,456)	(55,642)	18,197	(358,901)
Vehicles	(2,220,370)	(172,228)	-	(2,392,598)
<i>Total Accumulated Depreciation</i>	<u>(8,958,864)</u>	<u>(639,351)</u>	<u>18,197</u>	<u>(9,580,018)</u>
Depreciable Capital Assets, Net	<u>11,821,668</u>	<u>(495,679)</u>	<u>-</u>	<u>11,325,989</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 12,230,938</u>	<u>\$ (495,679)</u>	<u>\$ -</u>	<u>\$ 11,735,259</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 178,302
Special	24,471
Support Services:	
Instructional Staff	1,933
Administration	13,009

(Continued)

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

(Continued)	
Operation and Maintenance of Plant	205,174
Pupil Transportation	172,415
Non-Instructional Services	9,383
Extracurricular Activities	34,664
<i>Total Depreciation Expense</i>	\$ 639,351

NOTE 12 - INTERFUND ASSETS/LIABILITIES

At June 30, 2003, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$81,762; \$77,575 to provide cash flow resources until the receipt of grant monies and \$4,187 to provide short-term loans. All amounts are expected to be repaid within one year.

NOTE 13 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage:

Coverage provided by the Midwestern Indemnity Company:	
Buildings and Contents	\$ 63,446,154
Coverage provided by the Mid American Fire and Casualty Coverage:	
Automobile Liability	1,000,000
Coverage provided by the Ohio School Plan:	
General Liability	
Each Occurrence	1,000,000
Aggregate	3,000,000

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

For fiscal year 2003, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

The School District offers medical, prescription drug, and dental insurance to all employees through a partially self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The School District purchased stop loss insurance for claims in excess of \$75,000 per individual annually and \$2,500,000 per individual, per lifetime. Settled claims have not exceeded this coverage for the past three years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2003, were estimated by the third party administrator at \$534,700. The changes in the claims liability for the past two fiscal years are as follow:

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$ 570,000	\$ 3,284,986	\$ 3,320,286	\$ 534,700
2002	669,384	2,372,590	2,471,974	570,000

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For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**FREMONT CITY SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2003
(Continued)**

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$2,116,385, \$1,516,101, and \$1,489,073, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$6,710 made by the School District and \$15,376 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$368,983, \$236,033, and \$184,279, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$163,315.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$325,079 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003,

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**Notes to the Basic Financial Statements
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(Continued)**

SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 16 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

C. Special Termination Benefits

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

**FREMONT CITY SCHOOL DISTRICT
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For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds					
FY 2001 5.90%	\$ 945,000	\$ -	\$ 100,000	\$ 845,000	\$105,000
Compensated Absences Payable	4,609,921	427,214	404,545	4,632,590	209,224
<i>Total Governmental Activities</i>					
<i>Long-Term Obligations</i>	<u>\$ 5,554,921</u>	<u>\$427,214</u>	<u>\$ 504,545</u>	<u>\$ 5,477,590</u>	<u>\$314,224</u>

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

Compensated absences will be paid from the General Fund and the Food Service, Auxiliary Services, Disadvantaged Pupil Impact Aid, Migrant Education, Title VI-B, and Title I special revenue funds.

The School District's overall debt margin was \$49,830,500 with an unvoted debt margin of \$553,672 at June 30, 2003.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2003, were as follows:

Fiscal Year	Principal	Interest	Total
2004	\$ 105,000	\$ 46,758	\$ 151,758
2005	110,000	40,415	150,415
2006	115,000	33,778	148,778

(Continued)

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	125,000	26,698	151,698
2008	130,000	19,175	149,175
2009-2010	260,000	15,340	275,340
	<u>\$ 845,000</u>	<u>\$ 182,164</u>	<u>\$ 1,027,164</u>

NOTE 18 - SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 2003.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2002	\$ 561,059	\$ -
Current Year Set Aside Requirement	594,798	594,798
Qualifying Expenditures	(315,934)	-
Current Year Offsets	-	(594,798)
Balance June 30, 2003	<u>\$ 839,923</u>	<u>\$ -</u>

NOTE 19 - INTERFUND TRANSFERS

During fiscal year 2003, the General Fund made transfers to other governmental funds, in the amount of \$272,062; \$254,837 to the Food Service special revenue fund to support cafeteria operations and \$17,225 to the Title VI-R special revenue fund to subsidize operations of the fund.

**FREMONT CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 20 - DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments. Endowments, in the amount of \$37,500, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$5,067 and is reflected as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

A. Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. During fiscal year 2003, the School District paid \$81,497 to NOECA for various services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Northwestern Ohio Educational Research Council, Inc.

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

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Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

C. Vanguard-Sentinel Career Center

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

D. Northwest Ohio Special Education Regional Resource Center

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

NOTE 22 - INSURANCE POOLS

A. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are

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conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

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

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

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

NOTE 23 - FISCAL CAUTION

On April 10, 2003, the School District was declared in fiscal caution by the State Department of Education due to projected deficits. The School District's current five-year forecast reflects positive fund balances through fiscal year 2008 due to the passage of an income tax levy in May 2003. This tax will generate approximately \$2.4 million annually over the next five years. The State Department of Education continues to monitor to School District's financial activity.

NOTE 24 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

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SANDUSKY COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

NOTE 25 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

NOTE 26 - SUBSEQUENT EVENT

On January 14, 2004, the School District issued revenue anticipation notes in anticipation of the collection of income taxes, in the amount of \$1,100,000. The notes have an interest rate of 4.92 percent and were issued for a five year period, with final maturity in fiscal year 2009.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
<u>Nutrition Cluster:</u>						
Food Donation	10.550			123,982		128,992
School Breakfast Program	10.553	05PU-2002	20,809		20,809	
		05PU-2003	63,938		63,938	
Total - School Breakfast Program			84,747		84,747	
National School Lunch Program	10.555	LLP1-2002	176		176	
		LLP4-2002	130,655		130,655	
		LLP4-2003	423,516		423,516	
Total - National School Lunch Program			554,347		554,347	
Summer Food Service Program for Children	10.559	23PU-2002	21,239		21,239	
		24PU-2002	2,978		2,978	
Total - Summer Food Program for Children			24,217		24,217	
Total Nutrition Cluster			663,311	123,982	663,311	128,992
Child and Adult Care Food Program	10.558	16CP-2002	39		39	
		21CP-2002	459		459	
		CCCP-2003	346		346	
		CCMO-2003	4,365		4,365	
Total - Child and Adult Care Food Program			5,209		5,209	
Total U.S. Department of Agriculture			668,520	123,982	668,520	128,992
U.S. DEPARTMENT OF EDUCATION						
<i>Direct Grant</i>						
Teaching American History Grants	84.215X		85,521		86,524	
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2002	60,466		184,639	
		C1S1-2003	597,221		519,297	
		C1SD-2003	2,500		160	
Total - Title I			660,187		704,096	
Migrant Education Basic State Grant Program	84.011	MGS1-2002			104,713	
		MGS1-2003	41,552		29,094	
Total - Migrant Education Basic State Grant Program			41,552		133,807	
Special Education Grants to States	84.027	6BSF-2001	5,145		188,222	
		6BSF-2002	330,067		343,209	
Total - Special Education Grants to States			335,212		531,431	

(Continued)

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Grant Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
Safe and Drug Free Schools and Communities - State Grants	84.186	DRS1-2001 DRS1-2002 DRS1-2003	556 21,622		101 7,608 16,604	
Total - Safe and Drug Free Schools			<u>22,178</u>		<u>24,313</u>	
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	GSS2-2001 GSS9-2002			8,200 13,641	
Total - Goals 2000					<u>21,841</u>	
Eisenhower Professional Development State Grants	84.281	MSS1-2001 MSS1-2002	2,139 8,765		6,976 11,617	
Total - Eisenhower Professional Development			<u>10,904</u>		<u>18,593</u>	
Innovative Education Program Strategies	84.298	C2S1-2000 C2S1-2001 C2S1-2002 C2S1-2003			2 5,761 12,364 15,351	
Total - Innovative Educational Program Strategies			<u>21,435</u>		<u>33,478</u>	
Technology Literacy Challenge Fund Grants	84.318	TJS1-2003	21,383		23,503	
Advanced Placement Program	84.330	AVS1-2003	400		400	
Comprehensive School Reform Demonstration	84.332	RFS2-2002 RFS2-2003	37,500		50,870 24,997	
Total - Comprehensive School Reform			<u>37,500</u>		<u>75,867</u>	
Class Size Reduction	84.340	CRS1-2001 CRS1-2002			7,471 14,850	
Total - Class Size Reduction					<u>22,321</u>	
School Renovation Grants	84.352A	ATS2-2002 ATS3-2002	10,292 21,715		22,312	
Total - School Renovation Grants			<u>32,007</u>		<u>22,312</u>	
Improving Teacher Quality State Grants	84.367	TRS1-2003	194,699		152,048	
Total U.S. Department of Education			<u>1,462,978</u>		<u>1,850,534</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778		<u>16,694</u>		<u>16,694</u>	
Total Federal Awards Expenditures			<u>\$ 2,148,192</u>	<u>\$ 123,982</u>	<u>\$ 2,535,748</u>	<u>\$ 128,992</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of Fremont City School District, Sandusky County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 26, 2004 wherein we noted during the year ended June 30, 2003, the District is experiencing financial difficulties, implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and the District changed its capital assets threshold policy. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 26, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of District in a separate letter dated May 26, 2004.

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



Betty Montgomery
Auditor of State

May 26, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fremont City School District, Sandusky County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 26, 2004

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



Betty Montgomery
Auditor of State

May 26, 2004

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Findings
OMB Circular A -133 §.505
June 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: CFDA #10.550 CFDA #10.553 CFDA #10.555 CFDA #10.559
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2003-001

Finding for Recovery Repaid Under Audit

Fund raisers from student activities managed by two advisors had discrepancies in the final account of funds raised as follows:

<u>Advisor Name</u>	<u>Activity</u>	<u>Per Books Activity</u>	<u>Per Audit</u>	<u>Variance</u>
Tina Moses	National Honor Society	\$ 23,738	\$ 23,843	\$ 105
Eric Theller	Hockey Club	13,685	13,820	135
Total		<u>\$ 37,423</u>	<u>\$ 37,663</u>	<u>\$ 240</u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money that is due and not collected is hereby issued against Matt Feasel, Treasurer, the above listed advisors, and the Ohio School Plan, jointly and severally, in the amount of two hundred and forty dollars and zero cents (\$240) and in favor of the Student Activities Fund.

Advisor Tina Moses repaid the District \$105 on March 15, 2004.

Advisor Eric Theller repaid the District \$135 on March 15, 2004.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds had negative cash balances as follows:

**FINDING NUMBER 2003-002
 (Continued)**

<u>Date</u>	<u>Fund</u>	<u>Deficit Amount</u>
December 31, 2002	General	\$ 581,559
	Permanent Improvement	393,216
February 28, 2003	Permanent Improvement	\$ 156,119
	Self-Insurance	1,135,701
May 31, 2003	General	\$ 1,770,020
	Permanent Improvement	111,818
	Food Service	102,475
	Self-Insurance	163,348

Ten other funds had deficit balances in amounts ranging from \$496 to \$39,001.

FINDING NUMBER 2003-003

Noncompliance Citation

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

This section also provides for two “exceptions” to the above requirement:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

**FINDING NUMBER 2003-003
 (Continued)**

- B. If the amount involved is less than \$1,000 (\$3,000 after April 7, 2003) the fiscal officer may authorize it to be paid without the affirmation of the Board of Education, if such expenditure is otherwise valid.

Twelve percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the expectations provided for were used. To improve controls over disbursements, we recommend all District disbursements receive certification of the fiscal officer that the funds are or will be available prior to the expense being incurred.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated. The Board of Education established appropriations at the fund level. The following funds had expenditures plus encumbrances in excess of appropriations throughout fiscal year 2003:

<u>Fund</u>	<u>Date</u>	<u>Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
General fund	June 30, 2003	\$ 29,639,315	\$ 29,913,669	\$ (274,354)
Food Service fund	May 31, 2003	1,191,364	1,290,726	(99,362)
	June 30, 2003	1,191,364	1,357,568	(166,204)
Self-Insurance fund	January 31, 2003	3,500,000	4,310,603	(810,603)
	February 28, 2003	3,500,000	4,310,603	(810,603)
	March 31, 2003	3,500,000	4,306,257	(806,257)
	April 30, 2003	3,500,000	4,306,257	(806,257)
	May 31, 2003	3,500,000	4,306,257	(806,257)
	June 30, 2003	3,500,000	4,026,015	(526,015)
Auxiliary Services fund	March 31, 2003	292,462	394,762	(102,300)
	April 30, 2003	292,462	431,398	(138,936)
	May 31, 2003	292,462	514,032	(221,570)

**FINDING NUMBER 2003-004
(Continued)**

Expenditures plus encumbrances exceeded appropriations for the Permanent Improvement, Trust, Endowment, Uniform School Supply, Nautilus, American History Grant, Public School Support, Local Grant, Auxiliary Services, SchoolNet Professional Development, OhioReads, Title VI, Drug Free School Grant, E-Rate Grant, and Miscellaneous Federal Grants funds in amounts ranging from \$67 to \$70,049.

The failure to limit spending to only those amounts approved by the Board of Education could allow expenditures to exceed available resources and create deficit fund balances. We recommend the District refrain from making expenditures unless the money has been lawfully appropriated. The Treasurer should monitor the budget to ensure that all expenditures and encumbrances have been properly appropriated.

FINDING NUMBER 2003-005

Reportable Condition - Student Activities

Student activity advisors are required to complete a Sales Project Potential form for the approval to hold a fundraiser. Sales Project Potential forms were not completed for several fundraisers held during fiscal year 2003, and there is no reconciliation form required to be completed at the end of the fundraiser to agree the advisor's fundraising revenues to the amounts turned into the Treasurer's office. Furthermore, several student activity advisors did not maintain adequate documentation to support the fundraising revenues turned into the Treasurer's office. Inadequate documentation resulted in findings for recovery. To improve controls over student activity fundraisers, we recommend:

1. A "Sales Project Potential" form should be completed for all fund raisers and sales. The Treasurer should review the forms for completeness and accuracy.
2. The student activity advisors should maintain proper documentation to support the revenues turned into the Treasurer's office. Supporting documentation should include the following forms:
 - a. Student Accountability Record. This form should include the student's name, date goods were issued, quantity issued, sales price, total to be collected, date(s) the student paid in money or returned goods, amount paid by the student, balance owed by the student and the quality of goods returned.

FINDING NUMBER 2003-005
(Continued)

- b. Daily Deposit Record. This form should include students names, the amounts received from the students, the total deposit, and the school building secretary's receipt number.
 - c. Discrepancy Report and Outstanding Money List. This form should include any discrepancies (i.e., stolen or destroyed items), the date the discrepancy was found, the quantity of the discrepancy, and an explanation for the discrepancy. This form should also include any students with outstanding money, the amount owed, the date the student pays their money and the school building secretary's receipt number.
 - d. For banquets held, a list should be maintained that documents the persons attending, the price per meal and total collected or if preferable, tickets could be sold.
 - e. For any activity that sells tickets, a ticket reconciliation form should be completed that lists the amount of tickets available for sale, ticket number, price per ticket, number of tickets sold, tickets left on hand and the total amount collected. The unused tickets should be turned into the Treasurer's office at the end of the event.
 - f. For any memberships, a roster should be maintained of the members and notation made when dues are paid.
3. All student activity fundraisers should complete a Fundraiser Reconciliation form. This form should be divided into two sections. The first section should include an item description for items ordered, the quantity ordered, the selling price, and expected total sales. The second section should include the deposits made (from the Daily Deposit Records), any discrepancies or outstanding money (from the Discrepancy Report and Outstanding Money List), and a total. The expected total sales from the first section should agree to the total from the second section. The reconciliation form should be signed by the student activity advisor, approved by the school building Principal, and recalculated and approved by the Treasurer.
 4. The District should review the Auditor of State's *Guidelines for Developing Policies for Student Activity Programs*, available at www.auditor.state.oh.us , Publications, Manuals and Handbooks.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FREMONT CITY SCHOOL DISTRICT
SANDUSKY COUNTY**

**Schedule of Prior Audit Findings
June 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10172-001	Ohio Revised Code § 5705.10, deficit fund balances	No	Not corrected. Repeated as Finding # 2003-002.
2002-10172-002	Ohio Revised Code § 5705.41(B), expenditures plus encumbrances exceed appropriations	No	Not corrected. Repeated as Finding # 2003-004.



**Auditor of State
Betty Montgomery**

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FREMONT CITY SCHOOL DISTRICT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 17, 2004**