



**Auditor of State  
Betty Montgomery**



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Fort Recovery Local School District  
Mercer County  
P.O. Box 604  
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fort Recovery Local School District, Mercer County, (the School District), as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005 and 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General fund thereof for the years then ended in conformity with the basis of accounting Note 1 describes.

For the fiscal years ended June 30, 2005 and 2004, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. As described in Note 3, for fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosure."

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the respective budgetary comparison for the General fund is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

November 2, 2005

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

The discussion and analysis of the Fort Recovery Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal years ended June 30, 2005 and 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 and 2005 are as follows:

- During 2004, General Receipts accounted for \$6,496,182 or 81% of all receipts. Program specific receipts in the form of charges for services and sales, grants, and contributions accounted for \$1,529,419 or 19% of total receipts of \$8,025,601. During 2005, General Receipts accounted for \$6,678,358 or 81% of all receipts. Program specific receipts in the form of charges for services and sales, grants, and contributions accounted for \$1,595,110 or 19% of total receipts of \$8,273,468.
- Total program disbursements during 2004 were \$8,115,282, of which \$7,786,386 were in governmental activities. During 2005, total program disbursements were \$8,225,155, of which \$7,855,918 were in governmental activities.
- In total, net assets decreased \$89,681 during 2004. During 2005, net assets increased in total, \$48,313.

**Using this Annual Report**

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

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

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

**Basis of Accounting**

The School District has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

**Reporting the School District as a Whole**

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

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal years 2004 and 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change 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 which restrict receipts growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

**Fund Financial Statements**

The analysis of the School District's major fund begins on page 14 for fiscal year 2005 and page 44 for fiscal year 2004. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

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

**Reporting the District's Fiduciary Responsibilities**

The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on pages 19 and 49. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
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(Continued)**

**The School District as a Whole**

This year's financial statements were prepared on the cash basis utilizing the GASB Statement No. 34 format. The audited financial statements for fiscal year 2003 were also prepared on a cash basis, but did not utilize the GASB Statement No. 34 format. For comparison purposes, 2003 has been included in the table for Net Assets. The School District will provide this comparative analysis in subsequent years.

Table 1 provides a summary of the School District's net assets for fiscal years 2005, 2004 and 2003:

**(Table 1)  
Net Assets – Cash Basis**

	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Assets</b>						
Cash and Cash Equivalents	\$2,323,726	\$ 2,264,140	\$2,368,286	\$68,836	\$80,109	\$65,645
Total Assets	<u>\$2,323,726</u>	<u>\$ 2,264,140</u>	<u>\$2,368,286</u>	<u>\$68,836</u>	<u>\$80,109</u>	<u>\$65,645</u>
<b>Net Assets</b>						
Restricted for:						
Capital Projects	\$ 8,445	\$ 50,740	\$ 21,745	\$ 0	\$ 0	\$ 0
Debt Service	155,811	193,103	249,707	0	0	0
Other Purposes	186,197	283,512	295,238	0	0	0
Unrestricted	1,973,273	1,736,785	1,801,596	68,836	80,109	65,645
Total Net Assets	<u>\$2,323,726</u>	<u>\$2,264,140</u>	<u>\$2,368,286</u>	<u>\$68,836</u>	<u>\$80,109</u>	<u>\$65,645</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for fiscal years 2005 and 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34 format, receipts and disbursements comparisons to fiscal year 2003 are not available. This table may present additional fiscal years in side-by-side comparisons in future reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Receipts</b>				
<i>Program Receipts</i>				
Charges for Services	\$ 382,799	\$ 379,104	\$ 309,563	\$ 293,124
Operating Grants	838,487	768,284	45,857	49,934
Capital Grants	18,404	38,973	0	0
<i>General Receipts</i>				
Property & Income Taxes	2,542,482	2,427,410	0	0
Grants and Entitlements	4,007,750	3,958,530	0	0
Sale of Assets	25,261	20	0	0
Interest	42,628	30,315	1,034	302
Miscellaneous	57,693	79,605	1,510	0
<b>Total Receipts</b>	<b>7,915,504</b>	<b>7,682,241</b>	<b>357,964</b>	<b>343,360</b>
<i>Program Disbursements</i>				
Instruction	4,511,154	4,236,064	0	0
Support Services	2,774,870	2,784,025	0	0
Non-Instructional	0	1,393	0	0
Extracurricular	287,025	271,227	0	0
Capital Outlay	360	2,831	0	0
Debt Service	282,509	490,846	0	0
Food Services	0	0	308,778	293,595
Preschool Program	0	0	60,459	35,301
<b>Total Disbursements</b>	<b>7,855,918</b>	<b>7,786,386</b>	<b>369,237</b>	<b>328,896</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 59,586</b>	<b>\$(104,145)</b>	<b>\$ (11,273)</b>	<b>\$ 14,464</b>

**Governmental Activities**

Several sources fund the School District's governmental activities with the School Foundation being the largest contributor. Property tax levies generated \$1.8 million during 2004 and \$1.8 million during 2005. General receipts from property and local taxes, as well as miscellaneous grants and entitlements, are also large receipts generators. With the combination of taxes and intergovernmental funding over 82% of disbursements in governmental activities during 2004 and over 83% during 2005, the School District monitors both of these sources very closely for fluctuations.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The 2003 financial statements were prepared using a cash basis of accounting, but did not include the implementation of GASB 34 formatting. As a result, attempting to compare this year's data to last years' data would be misleading to the reader. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

**(Table 3)  
Governmental Activities**

	<u>2005</u>		<u>2004</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Instruction	\$4,511,154	\$3,585,197	\$4,236,064	\$ 3,355,717
Support Services:				
Pupil and Instructional Staff	672,593	525,686	658,701	525,032
Board of Education, Administration And Fiscal	867,893	860,593	920,215	912,414
Operation and Maintenance of Plant	841,429	836,129	815,026	811,811
Pupil Transportation	299,832	276,715	293,511	276,893
Business	8,436	8,436	7,338	7,338
Central	84,687	84,687	89,234	89,234
Operation of Non-Instructional Services	0	(3,871)	1,393	(14,332)
Extracurricular Activities	287,025	184,822	271,227	178,339
Capital Outlay	360	300	2,831	2,474
Debt Service	282,509	257,534	490,846	455,105
<b>Total</b>	<u><u>\$7,855,918</u></u>	<u><u>\$6,616,228</u></u>	<u><u>\$7,786,386</u></u>	<u><u>\$ 6,600,025</u></u>

Instruction and student support services comprise approximately 67% of governmental program disbursements in each fiscal year 2004 and 2005. Board of Education, fiscal and administration charges are approximately 11%. Interest disbursement is attributable to the outstanding bonds; fiscal disbursements include payments to the County Auditor(s) for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation/maintenance of facilities accounts for 15% of governmental program disbursements.

The dependence upon tax receipts for governmental activities is apparent. The community, as a whole, is by far the primary support for School District's students.

**Business-Type Activities**

The School District's most significant business-type activity includes the food services. In reviewing the business-type activities' net receipts/ (disbursement) resulting from cash basis transactions, the results of activities need to be reviewed annually.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2004 and 2005, the School District did modify its general fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the fiscal year 2004 general fund, budget basis receipts were \$6,597,385, over the original budget estimates of \$6,565,522. Of this \$31,863 increase, most was attributable to an increase in intergovernmental receipts. For 2005, general fund budget basis receipts were \$6,782,829, over the original budget estimates of \$6,744,158. This \$38,671 increase was also attributable to an increase in intergovernmental receipts.

**Debt Administration**

At June 30, 2005, the School District's outstanding debt included \$2,435,000 in Serial and Term Bonds and \$368,134 in Capital Appreciation Bonds issued for improvements to school building and structures, and \$24,434 in interest-free Environmental Protection Loans for asbestos removal projects. For further information regarding the School District's debt, refer to Note 10 to the basic financial statements.

**Current Issues**

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

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall income generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and tax at 1.0 mill would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. We presently are at the 20mill floor.

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

The School District does not anticipate any meaningful growth in State funding, if any at all. This will have a significant impact on the School District. Another School District concern is the State Legislative approval of the biennial budget, effective July 1, 2005, which had a negative impact on the district. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004  
UNAUDITED  
(Continued)**

**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 show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dennis Ontrop, Treasurer of Fort Recovery Local School District, 400 E. Butler St, Fort Recovery, OH 45846.

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	<u>\$2,323,726</u>	<u>\$68,836</u>	<u>\$2,392,562</u>
<i>Total Assets</i>	<u>2,323,726</u>	<u>68,836</u>	<u>2,392,562</u>
 <b>Net Assets</b>			
Restricted for:			
Capital Projects	8,445		8,445
Debt Service	155,811		155,811
Other Purposes	186,197		186,197
Unrestricted	<u>1,973,273</u>	<u>68,836</u>	<u>2,042,109</u>
<i>Total Net Assets</i>	<u>\$2,323,726</u>	<u>\$68,836</u>	<u>\$2,392,562</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Program Cash Receipts</b>			
	<b>Cash Disbursements</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$3,226,737	\$154,501	\$20,836	\$10,361
Special	1,025,708	30,392	592,916	
Vocational	185,629	8,289	105,658	
Other	73,080	3,004		
Support Services:				
Pupil	253,338	76,690	6,431	
Instructional Staff	419,255	2,990	60,796	
Board of Education	24,829			172
Administration	645,569	355	6,179	
Fiscal	197,495			594
Business	8,436			
Operation and Maintenance of Plant	841,429	4,211	1,089	
Pupil Transportation	299,832	164	15,736	7,217
Central	84,687			
Operation of Non-Instructional Services			3,871	
Extracurricular Activities	287,025	102,203		
Capital Outlay	360			60
Debt Service	282,509		24,975	
<i>Total Governmental Activities</i>	7,855,918	382,799	838,487	18,404
<b>Business Type Activity</b>				
Food Services	308,778	269,898	45,857	
Preschool Program	60,459	39,665		
<i>Total Business-Type Activities</i>	369,237	309,563	45,857	
<b>Total</b>	<b>\$8,225,155</b>	<b>\$692,362</b>	<b>\$884,344</b>	<b>\$18,404</b>

**General Receipts**

Property Taxes Levied for:  
 General Purposes  
 Debt Service  
 Permanent Improvement  
 Classroom Facilities and Maintenance  
 Income Taxes  
 Grants and Entitlements not Restricted  
 to Specific Programs  
 Proceeds from Sale of Capital Assets  
 Interest  
 Miscellaneous

*Total General Receipts*

Change in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the financial statements.



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

<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>
(\$3,041,039)		(\$3,041,039)
(402,400)		(402,400)
(71,682)		(71,682)
(70,076)		(70,076)
(170,217)		(170,217)
(355,469)		(355,469)
(24,657)		(24,657)
(639,035)		(639,035)
(196,901)		(196,901)
(8,436)		(8,436)
(836,129)		(836,129)
(276,715)		(276,715)
(84,687)		(84,687)
3,871		3,871
(184,822)		(184,822)
(300)		(300)
<u>(257,534)</u>		<u>(257,534)</u>
(6,616,228)		(6,616,228)
	6,977	6,977
	<u>(20,794)</u>	<u>(20,794)</u>
	(13,817)	(13,817)
<u>(6,616,228)</u>	<u>(13,817)</u>	<u>(6,630,045)</u>
1,443,486		1,443,486
210,589		210,589
155,286		155,286
33,758		33,758
699,363		699,363
4,007,750		4,007,750
25,261		25,261
42,628	1,034	43,662
<u>57,693</u>	<u>1,510</u>	<u>59,203</u>
<u>6,675,814</u>	<u>2,544</u>	<u>6,678,358</u>
59,586	(11,273)	48,313
<u>2,264,140</u>	<u>80,109</u>	<u>2,344,249</u>
<u>\$2,323,726</u>	<u>\$68,836</u>	<u>\$2,392,562</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$1,973,273	\$350,453	\$2,323,726
<i>Total Assets</i>	<u>1,973,273</u>	<u>350,453</u>	<u>2,323,726</u>
 <b>Fund Balances</b>			
Reserved for Encumbrances	98,449	50,616	149,065
Unreserved:			
Undesignated, Reported in:			
General Fund	1,874,824		1,874,824
Special Revenue Funds		135,581	135,581
Debt Service Funds		155,811	155,811
Capital Projects Funds		8,445	8,445
<i>Total Fund Balances</i>	<u>\$1,973,273</u>	<u>\$350,453</u>	<u>\$2,323,726</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES  
CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>			
Property Taxes	\$1,443,486	\$399,633	\$1,843,119
Income Taxes	699,363		699,363
Intergovernmental	4,397,823	466,814	4,864,637
Interest	42,628		42,628
Tuition and Fees	173,649		173,649
Extracurricular Activities		209,154	209,154
Miscellaneous	25,880	29,323	55,203
<i>Total Receipts</i>	<u>6,782,829</u>	<u>1,104,924</u>	<u>7,887,753</u>
<b>Disbursements</b>			
Current:			
Instruction			
Regular	3,056,360	170,377	3,226,737
Special	692,602	333,106	1,025,708
Vocational Education	184,050	1,579	185,629
Other	73,080		73,080
Support Services			
Pupil	137,770	115,568	253,338
Instructional Staff	351,169	68,086	419,255
Board of Education	23,801	1,028	24,829
Administration	628,222	17,347	645,569
Fiscal	182,313	15,182	197,495
Business	8,436		8,436
Operation and Maintenance of Plant	811,326	30,103	841,429
Pupil Transportation	251,512	48,320	299,832
Central	84,687		84,687
Extracurricular Activities	163,234	123,791	287,025
Capital Outlay			
Facilities Acquisition and Construction		360	360
Debt Service			
Principal	14,476	150,000	164,476
Interest		118,033	118,033
<i>Total Disbursements</i>	<u>6,663,038</u>	<u>1,192,880</u>	<u>7,855,918</u>
<i>Excess of Receipts Over / (Under) Disbursements</i>	<u>119,791</u>	<u>(87,956)</u>	<u>31,835</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Capital Assets	25,261		25,261
Advances-In	112,798	23,719	136,517
Other Financing Sources	2,359	131	2,490
Advances-Out	(23,719)	(112,798)	(136,517)
<i>Total Other Financing Sources (Uses)</i>	<u>116,699</u>	<u>(88,948)</u>	<u>27,751</u>
<i>Net Change in Fund Balances</i>	236,490	(176,904)	59,586
<i>Fund Balances Beginning</i>	<u>1,736,783</u>	<u>527,357</u>	<u>2,264,140</u>
<i>Fund Balances End of Year</i>	<u>\$1,973,273</u>	<u>\$350,453</u>	<u>\$2,323,726</u>
Reserved for Encumbrances	<u>\$98,449</u>	<u>\$50,616</u>	<u>\$149,065</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property Taxes	\$1,372,639	\$1,372,639	\$1,443,486	\$70,847
Income Taxes	615,995	615,995	699,363	83,368
Intergovernmental	4,486,999	4,486,999	4,397,823	(89,176)
Interest	29,715	29,715	42,628	12,913
Tuition and Fees	177,923	177,923	173,649	(4,274)
Extracurricular Activities				
Miscellaneous	60,887	60,887	25,880	(35,007)
<i>Total Receipts</i>	<u>6,744,158</u>	<u>6,744,158</u>	<u>6,782,829</u>	<u>38,671</u>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	3,209,163	3,209,163	3,098,213	110,950
Special	672,322	702,321	692,602	9,719
Vocational Education	174,274	189,274	185,487	3,787
Other	90,078	90,078	73,079	16,999
Support Services				
Pupil	152,073	152,073	138,495	13,578
Instructional Staff	307,042	357,042	356,937	105
Board of Education	32,121	32,121	23,801	8,320
Administration	614,006	664,006	631,493	32,513
Fiscal	197,706	197,706	190,435	7,271
Business	10,456	10,456	8,436	2,020
Operation and Maintenance of Plant	846,625	846,625	846,625	
Pupil Transportation	261,384	276,384	253,375	23,009
Central	93,981	93,981	84,717	9,264
Extracurricular Activities	164,658	164,658	163,313	1,345
Capital Outlay				
Facilities Acquisition and Construction				
Debt Service				
Principal	14,476	14,476	14,476	
Interest				
<i>Total Disbursements</i>	<u>6,840,365</u>	<u>7,000,364</u>	<u>6,761,484</u>	<u>238,880</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(96,207)</u>	<u>(256,206)</u>	<u>21,345</u>	<u>277,551</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets		2,857	25,261	22,404
Operating Transfers - In				
Advances-In			112,798	112,798
Other Financing Sources			2,359	2,359
Advances-Out		(316,152)	(23,719)	292,433
Operating Transfers - Out				
<i>Total Other Financing Sources (Uses)</i>		<u>(313,295)</u>	<u>116,699</u>	<u>429,994</u>
<i>Net Change in Fund Balance</i>	(96,207)	(569,501)	138,044	707,545
<i>Fund Balance Beginning of Year</i>	1,567,474	1,567,474	1,567,474	
Prior Year Encumbrances Appropriated	169,309	169,309	169,309	
<i>Fund Balance End of Year</i>	<u>\$1,640,576</u>	<u>\$1,167,282</u>	<u>\$1,874,827</u>	<u>\$707,545</u>

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$68,836
<i>Total Assets</i>	<u>68,836</u>
<b>Net Assets</b>	
Unrestricted	68,836
<i>Total Net Assets</i>	<u>\$68,836</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Business-Type Activity</b>
	<b>Enterprise</b>
<b>Operating Receipts</b>	
Charges for Services	\$269,898
Tuition and Fees	39,665
	<b>309,563</b>
 <b>Operating Disbursements</b>	
Salaries	161,854
Fringe Benefits	45,767
Purchased Services	6,026
Materials and Supplies	149,097
Capital Outlay	5,216
Other	1,277
	<b>369,237</b>
 <i>Total Operating Receipts</i>	<b>309,563</b>
 <i>Total Operating Expenses</i>	<b>369,237</b>
 <i>Operating Loss</i>	<b>(59,674)</b>
 <b>Non-Operating Receipts</b>	
Federal and State Subsidies	45,857
Interest	1,034
Miscellaneous	449
Other Financing Sources	1,061
	<b>48,401</b>
 <i>Total Non-Operating Receipts</i>	<b>48,401</b>
 <i>Change in Net Assets</i>	<b>(11,273)</b>
 <i>Net Assets Beginning of Year</i>	<b>80,109</b>
 <i>Net Assets End of Year</i>	<b>\$68,836</b>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Agency</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	<u>\$37,044</u>
<i>Total Assets</i>	<u><u>37,044</u></u>
<b>Net Assets</b>	
Held in Trust for Students	34,820
Held in Trust for Employees	<u>2,224</u>
<i>Total Net Assets</i>	<u><u>\$37,044</u></u>

*See accompanying notes to the financial statements.*

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

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

The School District is located in a rural community in Northwest Ohio. The School District is the 486th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 42 non-certificated employees and 65 certificated full-time teaching personnel who provide services to 959 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fort Recovery Local School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

The School District is associated with nine organizations which are defined as jointly governed organizations, related organizations and public entity risk pools. These organizations include the Northwest Ohio Area Computer Services Cooperative (NOACSC), Mercer County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resources Center (SERRC), Mercer Auglaize Employee Benefit Trust, Ohio School Board Association Group Rating Plan Program, the Ohio School Plan and Fort Recovery Public Library. These organizations are presented in Notes 12, 13, and 15 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the School District's accounting policies.

**A. Basis of Accounting**

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Difference between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**B. Basis of Presentation - Fund Accounting**

**1. Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School District. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**2. Fund Financial Statements**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

- a. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**3. Governmental Funds/Governmental Activities**

Governmental funds are those through which most governmental functions of the School District are financed. The following is the School District's major governmental fund:

**General Fund** - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**4. Proprietary Fund/Business-Type Activities**

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary fund accounts for the adult education program, preschool program, and lunchroom funds.

**5. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and the Section 125 Plan.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**1. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

**2. Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. 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 of Education during the fiscal year.

**3. Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**4. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

During 2005, the School District invested in nonnegotiable certificates of deposit and repurchase agreements. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$42,628, which included \$8,952 assigned from other School District funds.

**E. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

**F. Accumulated Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

**G. Long-Term Debt**

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash-basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

**H. Intergovernmental Revenues**

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**I. Inventory and Prepaid Items**

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**J. Interfund Receivables/Payables**

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expense in the reimbursed fund.

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At June 30, 2005, the General Fund had unpaid interfund cash advances, in the amount of \$7,200 for short-term loans made to the Public School Preschool, Ohio Reads, and miscellaneous special revenue funds. These are expected to be repaid within one year.

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

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

**L. Equity Classifications**

**1. Government-Wide Statements**

Equity is classified as net assets, and displayed in separate components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2005, the following represent the amount restricted by enabling legislation: permanent improvement levy - \$8,446, classroom facilities and maintenance levy - \$35,704, and bond retirement levy - \$155,811.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**2. Fund Financial Statements**

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund balances which are legally segregated for 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 of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances.

**M. Receipts and Expenditures**

**1. Program Receipts**

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

**2. Operating Receipts and Disbursements**

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, non-capital financing, or investing activities.

**3. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosure." GASB Statement No. 40 establishes and modifies the disclosure requirements to investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

**4. 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 that the Board of Education has identified as not required for use within the current two 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

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 School District's deposits is provided by the Federal Deposit Insurance Corporation, 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:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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) of this section 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 and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2005, the School District had \$1,200 in un-deposited cash on hand which is included in the fund balance.



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District's cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end, the carrying amount of the School District's deposits was \$2,179,164 and the bank balance was \$2,315,238. Of the bank balance, \$361,847 was covered by federal depository insurance and \$1,953,391 was uninsured. Of the remaining uninsured bank balance, \$1,953,391 was collateralized with securities held by the pledging institution's trust department not in the School District's name.

**B. Investments**

Investments are reported at fair value. As of June 30, 2005, the School District's only investment included \$249,242 in repurchase agreements.

**C. Interest Rate Risk**

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

**D. Credit Risk**

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

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

Of the School District's investments in repurchase agreements, underlying securities in the form of Federal Home Loan Band and Federal National Mortgage Association Notes with a Standard and Poor credit rating of AAA/Stable are held by the investment's counterparty, not in the name of the School District.

The credit ratings for a portion of the repurchase agreements with Second National Bank, totaling \$155,259, were unavailable at the time the report was published. The underlying securities consisted of a pool of mortgage-backed securities and derivative securities.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**5. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2005 represent the collection of calendar year 2004 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2005 were levied after April 1, 2004 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received during calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received during calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received during calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 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 Mercer and Darke Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	<b>2004 Second Half Collections</b>		<b>2005 First-Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$62,200,260	85.30%	\$64,728,410	84.62%
Public Utility	3,217,140	4.41	3,206,600	4.19
Tangible Personal Property	7,503,920	10.29	8,555,845	11.19
Total Assessed Value	<u>\$72,921,320</u>	<u>100.00%</u>	<u>\$76,490,855</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.70		\$33.70	

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**6. INCOME TAXES**

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

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with Indiana Insurance Company for property insurance and automobile insurance.

- B.** The school belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financials statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

	<u>2004</u>	<u>2003</u>
Assets	\$850,065	\$260,932
Liabilities	\$509,558	\$172,784
Members' Equity	<u>\$340,507</u>	<u>\$88,148</u>

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, [www.ohioschoolplan.org](http://www.ohioschoolplan.org).

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**C. Workers' Compensation**

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**D. Health Care Benefits**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Fort Recovery Local 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 basic retirement and disability benefits based on eligible service credit 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 or by calling (614) 227-4090.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

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

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary. The School District is 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. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$461,613, \$413,855, and \$387,280, respectively; 83 percent has been contributed for fiscal year 2005.

**B. School Employees Retirement System**

The Fort Recovery Local 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 basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion use 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$101,303, \$100,187, and \$75,634, respectively; 100 percent has been contributed for fiscal year 2005.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**9. POST EMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Plan or Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$35,509.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients (The most up-to-date information).

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

At June 30, 2005, the employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. 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. For the School District, the amount to fund healthcare benefits, including the surcharge, was \$54,719 for fiscal year 2005.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**9. POST EMPLOYMENT BENEFITS (Continued)**

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, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**10. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

<u>Debt Obligations</u>	<u>Outstanding 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/05</u>
1998 School Improvement Bonds				
Serial and Term Bonds 3.75%-4.9%	\$2,585,000	\$ 0	\$150,000	\$2,435,000
Capital Appreciation Bonds 7.5%	350,918	17,216	0	368,134
Environmental Protection Agency				
1989 Asbestos Abatement Loan 0%	25,793	0	5,732	20,061
Environmental Protection Agency				
1986 Asbestos Abatement Loan 0%	13,117	0	8,744	4,373
TOTAL DEBT	<u>\$2,974,828</u>	<u>\$17,216</u>	<u>\$164,476</u>	<u>\$2,827,568</u>

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

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

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**10. LONG-TERM OBLIGATIONS (Continued)**

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

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For fiscal year 2004, \$17,216 was accreted for total bond value of \$368,134.

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

**1986 Asbestos Removal Loan** - On August 13, 1986, the School District obtained an interest free loan for asbestos removal. The loan was issued for a twenty year period, with final maturity during fiscal year 2006. The loan is being retired from the General Fund.

The School District's overall debt margin was \$4,236,854 with an unvoted debt margin of \$76,491 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, were as follows:

<b>Fiscal Year Ending June 30,</b>	<b>General Obligation Bonds</b>	<b>1989 EPA Asbestos Loan</b>	<b>1986 EPA Asbestos Loan</b>
2006	\$ 251,835	\$ 5,732	\$ 4,373
2007	255,563	5,732	
2008	249,000	5,732	
2009	242,363	2,865	
2010	260,088		
2011 - 2015	1,251,670		
2016 - 2020	1,269,163		
2021	240,758		
	<b>\$4,020,440</b>	<b>\$ 20,061</b>	<b>\$ 4,373</b>

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



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**11. STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<b>Textbook Reserve</b>	<b>Capital Maintenance Reserve</b>
Carry Over Balance, 6/30/2004	\$(223,318)	\$ 0
Required Set-Aside	145,953	145,953
Qualifying Expenditures	(167,131)	(140,845)
Qualifying Offsets	0	(210,441)
Total	\$(244,496)	\$(205,333)
Excess Available for Carry-over to Subsequent Year	\$(244,496)	\$ 0

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks. For capital acquisitions, however, the extra amount may not be used to reduce the set-aside requirements of future years.

**12. JOINTLY GOVERNED ORGANIZATIONS**

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

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Harding County Education Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**West Central Ohio Regional Professional Development Center** - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting the Treasurer, Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

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

**13. GROUP PURCHASING POOL**

**A. Ohio School Boards Association Group Rating Plan Program (OSBA)**

The School District participates in a group rating plan (GRP) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the OSBA as a group insurance purchasing pool. The Safety Coordinator of OSBA or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**13. GROUP PURCHASING POOL (Continued)**

**B. Mercer Auglaize Employee Benefit Trust**

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

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

**C. 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 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.

**14. 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, 2005.

**B. 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 on its future State funding and its financial operations.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**15. RELATED ORGANIZATIONS**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$2,264,140	\$80,109	\$2,344,249
Total Assets	<u>2,264,140</u>	<u>80,109</u>	<u>2,344,249</u>
 <b>Net Assets</b>			
Restricted for:			
Capital Projects	50,740		50,740
Debt Service	193,103		193,103
Other Purposes	283,512		283,512
Unrestricted	<u>1,736,785</u>	<u>80,109</u>	<u>1,816,894</u>
Total Net Assets	<u>\$2,264,140</u>	<u>\$80,109</u>	<u>\$2,344,249</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Program Cash Receipts</b>			
	<b>Cash Disbursements</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants, Contributions and Interest</b>	<b>Capital Grants and Contributions</b>
<b>Governmental Activities:</b>				
Instruction				
Regular	\$3,095,954	\$204,408	\$25,897	\$21,236
Special	882,196		512,079	
Vocational	177,836	144	116,491	92
Other	80,078			
Support Services				
Pupil	260,958	65,727	3,550	
Instructional Staff	397,743	1,981	62,411	
Board of Education	31,063			
Administration	673,996	363	6,985	
Fiscal	215,156			453
Business	7,338			
Operation and Maintenance of Plant	815,026	1,944		1,271
Pupil Transportation	293,511	29	12,419	4,170
Central	89,234			
Operation of Non-Instructional Services	1,393	11,620	3,929	176
Extracurricular Activities	271,227	92,888		
Capital Outlay				
Facilities Acquisition and Construction	2,831			357
Debt Service	490,846		24,523	11,218
<i>Total Governmental Activities</i>	<u>7,786,386</u>	<u>379,104</u>	<u>768,284</u>	<u>38,973</u>
<b>Business-Type Activities:</b>				
Food Services	293,595	261,984	49,934	
Preschool Program	35,301	31,140		
<i>Total Business-Type Activities</i>	<u>328,896</u>	<u>293,124</u>	<u>49,934</u>	
<i>Totals</i>	<u>\$8,115,282</u>	<u>\$672,228</u>	<u>\$818,218</u>	<u>\$38,973</u>

**General Receipts**

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

Change in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the financial statements.

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

<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>
(\$2,844,413)		(\$2,844,413)
(370,117)		(370,117)
(61,109)		(61,109)
(80,078)		(80,078)
(191,681)		(191,681)
(333,351)		(333,351)
(31,063)		(31,063)
(666,648)		(666,648)
(214,703)		(214,703)
(7,338)		(7,338)
(811,811)		(811,811)
(276,893)		(276,893)
(89,234)		(89,234)
14,332		14,332
(178,339)		(178,339)
(2,474)		(2,474)
<u>(455,105)</u>		<u>(455,105)</u>
<u>(6,600,025)</u>		<u>(6,600,025)</u>
	18,323	18,323
	<u>(4,161)</u>	<u>(4,161)</u>
	14,162	14,162
(6,600,025)	14,162	(6,585,863)
1,404,954		1,404,954
325,590		325,590
47,757		47,757
33,114		33,114
615,995		615,995
3,958,530		3,958,530
20		20
30,315	302	30,617
79,605		79,605
<u>6,495,880</u>	<u>302</u>	<u>6,496,182</u>
(104,145)	14,464	(89,681)
<u>2,368,285</u>	<u>65,645</u>	<u>2,433,930</u>
<u>\$2,264,140</u>	<u>\$80,109</u>	<u>\$2,344,249</u>

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$1,736,783	\$527,357	\$2,264,140
<i>Total Assets</i>	1,736,783	527,357	2,264,140
 <b>Fund Balances</b>			
Reserved for Encumbrances	169,309	34,724	204,033
Unreserved:			
Undesignated, Reported in:			
General Fund	1,567,474		1,567,474
Special Revenue Funds		249,892	249,892
Debt Service Funds		193,103	193,103
Capital Projects Funds		49,638	49,638
<i>Total Fund Balances</i>	\$1,736,783	\$527,357	\$2,264,140

*See accompanying notes to the financial statements.*



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES  
CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Receipts</b>			
Property Taxes	\$1,404,954 #	\$406,461	\$1,811,415
Income Taxes	615,995		615,995
Intergovernmental	4,342,923	423,585	4,766,508
Interest	30,315		30,315
Tuition and Fees	179,311		179,311
Extracurricular Activities		199,073	199,073
Miscellaneous	23,887	55,409	79,296
<i>Total Receipts</i>	<u>6,597,385</u>	<u>1,084,528</u>	<u>7,681,913</u>
<b>Disbursements</b>			
Current:			
Instruction			
Regular	2,954,879	141,075	3,095,954
Special	616,800	265,396	882,196
Vocational	175,213	2,623	177,836
Other	80,078		80,078
Support Services			
Pupil	163,929	97,029	260,958
Instructional Staff	320,523	77,220	397,743
Board of Education	31,063		31,063
Administration	631,739	42,257	673,996
Fiscal	205,910	9,246	215,156
Business	7,338		7,338
Operation and Maintenance of Plant	741,232	73,794	815,026
Pupil Transportation	260,386	33,125	293,511
Central	89,234		89,234
Operation of Non-Instructional Services		1,393	1,393
Extracurricular Activities	163,750	107,477	271,227
Capital Outlay			
Facilities Acquisition and Construction		2,831	2,831
Debt Service			
Principal Retirement		363,476	363,476
Interest		127,370	127,370
<i>Total Disbursements</i>	<u>6,442,074</u>	<u>1,344,312</u>	<u>7,786,386</u>
<i>Excess of Receipts Over / (Under) Disbursements</i>	<u>155,311</u>	<u>(259,784)</u>	<u>(104,473)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Sale of Capital Assets	20		20
Operating Transfers - In		124,210	124,210
Advances - In	68,997	157,277	226,274
Other Financing Sources	348		348
Operating Transfers - Out	(124,210)		(124,210)
Advances - Out	(165,277)	(60,997)	(226,274)
Other Financing Uses		(40)	(40)
<i>Total Other Financing (Uses) Sources</i>	<u>(220,122)</u>	<u>220,450</u>	<u>328</u>
<i>Net Change in Fund Balances</i>	(64,811)	(39,334)	(104,145)
<i>Fund Balances Beginning</i>	<u>1,801,594</u>	<u>566,691</u>	<u>2,368,285</u>
<i>Fund Balances End of Year</i>	<u>\$1,736,783</u>	<u>\$527,357</u>	<u>\$2,264,140</u>
Reserved for Encumbrances	<u>\$169,309</u>	<u>\$34,724</u>	<u>\$204,033</u>

See accompanying notes to the financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property Taxes	\$1,321,838	\$1,321,838	\$1,404,954	\$83,116
Income Taxes	635,654	635,654	615,995	(19,659)
Intergovernmental	4,420,168	4,420,168	4,342,923	(77,245)
Interest	20,000	20,000	30,315	10,315
Tuition and Fees	145,347	145,347	179,311	33,964
Extracurricular Activities				
Miscellaneous	<u>22,515</u>	<u>22,515</u>	<u>23,887</u>	<u>1,372</u>
<i>Total Receipts</i>	<u>6,565,522</u>	<u>6,565,522</u>	<u>6,597,385</u>	<u>31,863</u>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	3,010,480	3,110,480	3,019,536	90,944
Special	590,606	620,606	617,534	3,072
Vocational	159,139	184,139	175,780	8,359
Other	107,829	107,829	80,078	27,751
Support Services				
Pupil	163,243	165,243	164,467	776
Instructional Staff	297,288	327,288	324,444	2,844
Board of Education	30,598	31,098	31,063	35
Administration	584,432	644,432	633,899	10,533
Fiscal	208,675	208,675	207,437	1,238
Business	8,972	8,972	7,338	1,634
Operation and Maintenance of Plant	885,063	885,063	834,814	50,249
Pupil Transportation	402,370	402,369	261,896	140,473
Central	113,660	113,660	89,347	24,313
Operation of Non-Instructional Services				
Extracurricular Activities	157,759	160,409	163,750	(3,341)
Capital Outlay				
Facilities Acquisition and Construction				
Debt Service				
Principal Retirement				
Interest				
<i>Total Disbursements</i>	<u>6,720,114</u>	<u>6,970,263</u>	<u>6,611,383</u>	<u>358,880</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(154,592)</u>	<u>(404,741)</u>	<u>(13,998)</u>	<u>390,743</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Sale of Fixed Assets			20	20
Operating Transfers - In				
Advances - In			68,997	68,997
Refund of Prior Year Expenditures			348	348
Operating Transfers - Out				
Advances - Out	(59,998)	(59,998)	(165,277)	(105,279)
Refund of Prior Year Receipts	<u>(1,845)</u>	<u>(1,845)</u>		<u>1,845</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(61,843)</u>	<u>(61,843)</u>	<u>(220,122)</u>	<u>(158,279)</u>
<i>Net Change in Fund Balance</i>	(216,435)	(466,584)	(234,120)	232,464
<i>Fund Balance Beginning of Year</i>	1,658,033	1,658,033	1,658,033	
Prior Year Encumbrances Appropriated	<u>143,561</u>	<u>143,561</u>	<u>143,561</u>	
<i>Fund Balance End of Year</i>	<u>\$1,585,159</u>	<u>\$1,335,010</u>	<u>\$1,567,474</u>	<u>\$232,464</u>

See accompanying notes to the financial statements.

FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUTNY

STATEMENT OF FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$80,109
<i>Total Assets</i>	<u>80,109</u>
<b>Net Assets</b>	
Unrestricted	80,109
<i>Total Net Assets</i>	<u>\$80,109</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Business-Type Activity</b>
	<b>Enterprise</b>
<b>Operating Receipts</b>	
Charges for Services	\$261,984
Tuition & Fees	31,140
	<u>293,124</u>
 <b>Operating Disbursements</b>	
Salaries	145,350
Fringe Benefits	40,429
Purchased Services	10,875
Materials and Supplies	131,830
Capital Outlay	48
Other	364
	<u>328,896</u>
 <i>Total Operating Expenses</i>	<u>328,896</u>
 <i>Operating Loss</i>	<u>(35,772)</u>
 <b>Non-Operating Receipts</b>	
Federal and State Subsidies	49,934
Interest	302
	<u>50,236</u>
 <i>Total Non-Operating Receipts</i>	<u>50,236</u>
 <i>Income before Advances</i>	<u>14,464</u>
 Advances - In	8,000
Advances - Out	(8,000)
	<u>14,464</u>
 <i>Change in Net Assets</i>	<u>14,464</u>
 <i>Net Assets Beginning of Year</i>	<u>65,645</u>
 <i>Net Assets End of Year</i>	<u>\$80,109</u>

*See accompanying notes to the financial statements.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Agency</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	<u>\$36,691</u>
<i>Total Assets</i>	<u><u>36,691</u></u>
<b>Net Assets</b>	
Held in Trust for Students	34,408
Held in Trust for Employees	<u>2,283</u>
<i>Total Net Assets</i>	<u><u>\$36,691</u></u>

*See accompanying notes to the financial statements.*

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004**

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

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

The School District is located in a rural community in Northwest Ohio. The School District is the 486th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 43 non-certificated employees and 66 certificated full-time teaching personnel who provide services to 983 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fort Recovery Local School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

The School District is associated with nine organizations which are defined as jointly governed organizations, related organizations and public entity risk pools. These organizations include the Northwest Ohio Area Computer Services Cooperative (NOACSC), Mercer County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resources Center (SERRC), Mercer Auglaize Employee Benefit Trust, Ohio School Board Association Group Rating Plan Program, the Ohio School Plan, and Fort Recovery Public Library. These organizations are presented in Notes 13, 14 and 16 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the School District's accounting policies.

**A. Basis of Accounting**

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Difference between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**B. Basis of Presentation - Fund Accounting**

**1. Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School District. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**2. Fund Financial Statements**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

- b. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**3. Governmental Funds/Governmental Activities**

Governmental funds are those through which most governmental functions of the School District are financed. The following is the School District's major governmental fund:

**General Fund** - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**4. Proprietary Fund/Business-Type Activities**

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary fund accounts for the adult education program, preschool program and lunchroom funds.

**5. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and the Section 125 Plan.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**1. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

**2. Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board of Education may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. 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 of Education during the fiscal year.

**3. Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**4. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Cash and Cash Equivalents."

For purposes of financial reporting, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

During 2004, the School District invested in nonnegotiable certificates of deposit and repurchase agreements. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2004 was \$30,315, which included \$7,579 assigned from other School District funds.

**E. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded for these capital assets.

**F. Accumulated Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

**G. Long-Term Debt**

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest reported as disbursements when paid.

**H. Intergovernmental Revenues**

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

**I. Inventory and Prepaid Items**

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

**J. Interfund Receivables/Payables**

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recording as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expense in the reimbursed fund.

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At June 30, 2004, the General Fund had unpaid interfund cash advances, in the amount of \$96,280, for short-term loans made to the Permanent Improvement Fund, the Safe and Drug Free Schools grant fund, and the Teacher Quality grant fund. These are expected to be repaid within one year.

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

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Equity Classifications**

**1. Government-Wide Statements**

Equity is classified as net assets, and displayed in separate components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2005, the following represent the amount restricted by enabling legislation: permanent improvement levy - \$31,989, classroom facilities and maintenance levy - \$12,663, and bond retirement levy - \$193,104.

**2. Fund Financial Statements**

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

The School District records reservations for portions of fund balance which are legally segregated for 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 of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances.

**M. Receipts and Expenditures**

**1. Program Receipts**

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

**2. Operating Receipts and Disbursements**

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, non-capital financing, or investing activities.

**3. 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 that the Board of Education has identified as not required for use within the current two 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 School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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) of this section 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 and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2004, the School District had \$939 in un-deposited cash on hand which is included in the fund balance.

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District's cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

At year end, the carrying amount of the School District's deposits was \$2,074,172 and the bank balance was \$2,196,653. Of the bank balance, \$269,363 was covered by federal depository insurance and \$1,927,290 was uninsured. Of the remaining uninsured bank balance, \$1,927,290 was collateralized with securities held by the pledging institution's trust department not in the School District's name.

**B. Investments**

Investments are reported at fair value. As of June 30, 2004, the School District's only investment included \$305,829 in repurchase agreements.

**4. 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 distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2004 represent the collection of calendar year 2003 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2004 were levied after April 1, 2003 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received during calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received during calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received during calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received during calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 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 Mercer and Darke Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**4. PROPERTY TAXES (Continued)**

The assessed values upon which fiscal year 2004 taxes were collected are:

	<b>2003 Second-Half Collections</b>		<b>2004 First-Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$57,200,610	83.49%	\$62,200,260	85.30%
Public Utility	3,804,530	5.56	3,217,140	4.41
Tangible Personal Property	7,503,920	10.95	7,503,920	10.29
Total Assessed Value	<u>\$68,509,060</u>	<u>100.00%</u>	<u>\$72,921,320</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.70		\$33.70	

**5. INCOME TAXES**

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

**6. RISK MANAGEMENT**

**A. Property and Liability**

The school belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financials statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

	<b>2004</b>	<b>2003</b>
Assets	\$850,065	\$260,932
Liabilities	\$509,558	\$172,784
Members' Equity	<u>\$340,507</u>	<u>\$88,148</u>



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, [www.ohioschoolplan.org](http://www.ohioschoolplan.org).

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

**B. Workers' Compensation**

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**C. Health Care Benefits**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Fort Recovery Local 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 basic retirement and disability benefits to members based on eligible service credit 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003 this pension contribution was also 13 percent. 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.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$413,855, \$387,280, and \$270,389, respectively; 83 percent has been contributed for fiscal year 2004.

**B. School Employees Retirement System**

The Fort Recovery Local 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 plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion use 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

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

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$100,187, \$75,634, and \$49,125, respectively; 100 percent has been contributed for fiscal year 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**8. POST EMPLOYMENT 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 non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$31,835.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

At June 30, 2004, the employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay has been established at \$24,500. 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. For the School District, the amount to fund healthcare benefits, including the surcharge, was \$54,116 for fiscal year 2004.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**8. POST EMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contributions 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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**9. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

<u>Debt Obligations</u>	<u>Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/04</u>
1998 School Improvement Bonds				
Serial and Term Bonds 3.75%-4.9%	\$2,700,000	\$ 0	\$115,000	\$2,585,000
Capital Appreciation Bonds 7.5%	334,507	16,411	0	350,918
2002 Building Loan (Variable Interest)	234,000	0	234,000	0
Environmental Protection Agency 1989 Asbestos Abatement Loan 0%	31,525	0	5,732	25,793
Environmental Protection Agency 1986 Asbestos Abatement Loan 0%	21,861	0	8,744	13,117
TOTAL DEBT	<u>\$3,321,893</u>	<u>\$ 16,411</u>	<u>\$363,476</u>	<u>\$2,974,828</u>

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

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

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**9. LONG-TERM OBLIGATIONS (Continued)**

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

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For fiscal year 2004, \$16,411 was accreted for total bond value of \$350,918.

**2002 Building Loan** – In fiscal year 2002, the School District obtained a loan, in the amount of \$306,000 from the OASBO Expanded Asset Capital Pool. Interest was being paid monthly at a variable rate. Principal was to be paid in four annual installments, with final maturity in fiscal year 2006. The loan was repaid in full during fiscal year 2004.

**1989 Asbestos Removal Loan** - On June 2, 1989, the School District obtained an interest free loan for asbestos removal. The loan was issued for a twenty year period, with final maturity during fiscal year 2009. The loan is being retired from the Bond Retirement debt service fund.

**1986 Asbestos Removal Loan** - On August 13, 1986, the School District obtained an interest free loan for asbestos removal. The loan was issued for a twenty year period, with final maturity during fiscal year 2006. The loan is being retired from the Bond Retirement debt service fund.

The School District's overall debt margin was \$3,820,105 with an unvoted debt margin of \$72,921 at June 30, 2004.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, were as follows:

<b>Fiscal Year Ending June 30,</b>	<b>General Obligation Bonds</b>	<b>1989 EPA Asbestos Loan</b>	<b>1986 EPA Asbestos Loan</b>
2005	\$ 268,033	\$ 5,732	\$ 8,744
2006	251,835	5,732	4,373
2007	255,563	5,732	
2008	249,000	5,732	
2009	242,363	2,865	
2010 - 2014	1,252,913		
2015 - 2019	1,275,735		
2020 - 2021	493,030		
	\$ 4,288,472	\$ 25,793	\$ 13,117

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**10. INTERFUND TRANSFERS**

During fiscal year 2004, the General Fund transferred \$124,210 to the Employee Termination Benefits special revenue fund to fund future employee retirements.

**11. CONSTRUCTION AND CONTRACTUAL COMMITMENTS**

As of June 30, 2004, the School District had significant contractual commitments as follows:

Myers Equipment	Bus Purchase	\$60,282
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**12. STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<b>Textbook Reserve</b>	<b>Capital Maintenance Reserve</b>
Carry Over Balance, 6/30/2003	\$(219,147)	\$ 0
Required Set-Aside	144,063	144,063
Qualifying Expenditures	(148,234)	(85,512)
Qualifying Offsets	0	(100,950)
Total	(223,318)	42,399
Excess Available for Carry-over to Subsequent Year	\$(223,318)	\$ 0

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks. For capital acquisitions, however, the extra amount may not be used to reduce the set-aside requirements of future years.

**13. JOINTLY GOVERNED ORGANIZATIONS**

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

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

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

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Harding County Education Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**West Central Ohio Regional Professional Development Center** - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting the Treasurer, Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**14. GROUP PURCHASING POOL**

**A. Ohio School Boards Association Group Rating Plan Program (OSBA)**

The School District participates in a group rating plan (GRP) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the Ohio School Board Association (OSBA) as a group insurance purchasing pool. The Plan's business and affairs are conducted by a three member Board Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Mercer Auglaize Employee Benefit Trust**

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

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

**C. 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 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.

**15. 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, 2004.



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004  
(Continued)**

**15. CONTINGENCIES (Continued)**

**B. 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 on its future State funding and its financial operations.

**16. Related Organizations**

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

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## Auditor of State Betty Montgomery

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

Fort Recovery Local School District  
Mercer County  
P.O. Box 604  
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fort Recovery Local School District, Mercer County, (the School District), as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 2, 2005 wherein we noted that the School District reports on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is required and for fiscal year ended June 30, 2005 the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investment Risk Disclosure". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated November 2, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated November 2, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Fort Recovery Local School District  
Mercer County  
Independent Accountants' Report on Compliance and Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

November 2, 2005

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND 2004**

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

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

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

The School District should prepare their financial statements in accordance with GAAP.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03 (B) – District failed to prepare GAAP financial statements	No	Not Corrected



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
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**FORT RECOVERY LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 13, 2005**