



**Auditor of State  
Betty Montgomery**



**FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The accompanying financial statements and notes to the basic financial statements replaces the financial statements and notes in the Fredericktown Local School District's year ended June 30, 2004 report. As discussed in Note 20, the statements and notes were revised to report the Food Service Fund as a major fund, instead of a non-major fund as previously reported.

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

**Betty Montgomery**  
Auditor of State

February 4, 2005, except for the last paragraph, which is dated November 3, 2005

## **Fredericktown Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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

### **Financial Highlights**

Key financial highlights for 2004 are as follows:

- ❑ In total, net assets increased \$592,257. Net assets of governmental activities increased \$238,679, which represents a 7 percent increase from 2003. Net assets of business-type activities increased \$353,578 from 2003.
- ❑ For governmental activities general revenues accounted for \$9,417,034 in revenue or 90.3 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1,010,121 or 9.7 percent of total revenues of \$10,427,155.
- ❑ The School District had \$9,760,742 in expenses related to governmental activities; only \$1,010,121 of these expenses were offset by program specific charges for services, grants or contributions.
- ❑ Among major funds, the general fund had \$8,535,413 in revenues and \$8,108,360 in expenditures. The general fund's fund balance increased \$357,053 to \$2,278,805.
- ❑ Net assets for enterprise funds increased by \$353,578. Operating expenses of \$421,471 exceeded operating revenues of \$270,617 and grants of \$95,554. A \$70,000 transfer and a \$357,734 capital contribution were made from the capital facilities construction capital projects fund.

### **Using this Annual Financial Report (AFR)**

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

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

## Fredericktown Local School District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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### **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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- ❑ Governmental Activities – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- ❑ Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District food service, uniform school supplies and latchkey programs are reported as a business activity.

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

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund, debt service fund, and food service 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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

**Proprietary Funds** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

(Table 1)  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current and Other Assets	\$6,256,295	\$8,870,572	\$29,748	\$34,942	\$6,286,043	\$8,905,514
Capital Assets	9,702,300	8,816,231	410,132	43,546	10,112,432	8,859,777
Total Assets	<u>15,958,595</u>	<u>17,686,803</u>	<u>439,880</u>	<u>78,488</u>	<u>16,398,475</u>	<u>17,765,291</u>
<b>Liabilities</b>						
Long-Term Liabilities	8,423,751	8,595,599	17,144	18,693	8,440,895	8,614,292
Other Liabilities	3,634,204	5,429,243	48,030	38,667	3,682,234	5,467,910
Total Liabilities	<u>12,057,955</u>	<u>14,024,842</u>	<u>65,174</u>	<u>57,360</u>	<u>12,123,129</u>	<u>14,082,202</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	2,050,787	1,220,007	410,132	43,546	2,460,919	1,263,553
Restricted	953,864	1,834,151	0	0	953,864	1,834,151
Unrestricted (Deficit)	<u>895,989</u>	<u>607,803</u>	<u>(35,426)</u>	<u>(22,418)</u>	<u>860,563</u>	<u>585,385</u>
Total Net Assets	<u><u>\$3,900,640</u></u>	<u><u>\$3,661,961</u></u>	<u><u>\$374,706</u></u>	<u><u>\$21,128</u></u>	<u><u>\$4,275,346</u></u>	<u><u>\$3,683,089</u></u>

Net assets of the School District's governmental activities increased.

The net assets of the School District business-type activities increased \$353,578 from the prior year. The general fund transferred \$70,000 to the food service fund to account for increased expenses. The food service fund also received a capital contribution in the amount of \$357,734 from the capital facilities construction capital projects fund. This was for the portion of the new building that is attributed to the food service operations. The last increase in student lunch fees occurred in 2003.

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2004.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$549,647	\$272,854	\$248,829	\$221,961	\$798,476	\$494,815
Operating Grants and Contributions	436,549	422,907	95,554	82,194	532,103	505,101
Capital Grants and Contributions	23,925	10,946	0	0	23,925	10,946
<b>Total Program Revenues</b>	<b>1,010,121</b>	<b>706,707</b>	<b>344,383</b>	<b>304,155</b>	<b>1,354,504</b>	<b>1,010,862</b>
General Revenues:						
Property Taxes	4,692,188	3,271,482	0	0	4,692,188	3,271,482
Grants and Entitlements	4,405,872	4,395,169	0	0	4,405,872	4,395,169
Other	318,974	448,155	21,788	0	340,762	448,155
<b>Total General Revenues</b>	<b>9,417,034</b>	<b>8,114,806</b>	<b>21,788</b>	<b>0</b>	<b>9,438,822</b>	<b>8,114,806</b>
<b>Total Revenues</b>	<b>10,427,155</b>	<b>8,821,513</b>	<b>366,171</b>	<b>304,155</b>	<b>10,793,326</b>	<b>9,125,668</b>
<b>Expenses</b>						
Instruction	5,776,147	5,366,746	0	0	5,776,147	5,366,746
Support Services:						
Pupil and Instructional Staff	1,067,448	1,033,780	0	0	1,067,448	1,033,780
Board of Education, Administration, Fiscal, Business and Central	1,028,631	1,311,007	0	0	1,028,631	1,311,007
Operation and Maintenance of Plant	536,323	553,333	0	0	536,323	553,333
Pupil Transportation	537,451	560,775	0	0	537,451	560,775
Extracurricular Activities	411,022	429,802	0	0	411,022	429,802
Interest and Fiscal Charges	403,720	408,943	0	0	403,720	408,943
Enterprise Operations	0	16,892	440,327	406,467	440,327	423,359
<b>Total Expenses</b>	<b>9,760,742</b>	<b>9,681,278</b>	<b>440,327</b>	<b>406,467</b>	<b>10,201,069</b>	<b>10,087,745</b>
Increase (Decrease) in Net Assets						
Before Transfers	666,413	(859,765)	(74,156)	(102,312)	592,257	(962,077)
Transfers	(427,734)	(55,000)	427,734	55,000	0	0
<b>Increase (Decrease) in Net Assets</b>	<b>238,679</b>	<b>(914,765)</b>	<b>353,578</b>	<b>(47,312)</b>	<b>592,257</b>	<b>(962,077)</b>
Net Assets Beginning of Year	3,661,961	4,576,726	21,128	68,440	3,683,089	4,645,166
<b>Net Assets End of Year</b>	<b>\$3,900,640</b>	<b>\$3,661,961</b>	<b>\$374,706</b>	<b>\$21,128</b>	<b>\$4,275,346</b>	<b>\$3,683,089</b>

Expenses increased due to new costs associated with the new building that was completed early in fiscal year 2004.

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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***Governmental Activities***

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a vote does not increase as a result of inflation. As an example, a homeowner with a home valued at \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the homes were reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$4,692,188 in 2004. General revenues from grants and entitlements, such as the school foundation program, generated \$4,405,872. With the combination of taxes and intergovernmental funding over 97 percent of all expenses and intergovernmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 59 percent of governmental program expenses. Interest expense was 4.1 percent. Interest expense was attributable to the outstanding construction bond.

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

Table 3  
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction	\$5,776,147	\$5,366,746	(\$5,051,404)	(\$4,939,521)
Support Services:				
Pupil and Instructional Staff	1,067,448	1,033,780	(982,159)	(935,350)
Board of Education, Administration, Fiscal, Business and Central Operation and Maintenance of Plant	1,028,631	1,327,899	(1,016,706)	(1,323,092)
Pupil Transportation	536,323	553,333	(531,486)	(545,222)
Extracurricular Activities	537,451	560,775	(537,451)	(560,775)
Interest and Fiscal Charges	411,022	429,802	(227,695)	(261,668)
	403,720	408,943	(403,720)	(408,943)
Total Expenses	\$9,760,742	\$9,681,278	(\$8,750,621)	(\$8,974,571)

***Business-Type Activities***

Business-type activities include the food service operation, latchkey after school care and uniform school supplies. These programs had revenues of \$366,171 and expenses of \$440,327 for fiscal year 2004. Management regularly reviews these programs and food service fees have not been increased since 2003. To also insure that the net assets are not reduced in fiscal year 2005, the School District is taking steps to reduce expenses.

# Fredericktown Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

## The School District's Funds

Information about the School District's governmental major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,263,441 and expenditures of \$10,778,369.

### *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 2004, the School District amended its general fund budget numerous times to allow for the advance to the self-funded insurance fund and other less significant amendments.

For the general fund, budget basis revenue was \$7,953,244, above original budget estimates of \$7,411,966. Of this \$541,278 difference, most was due to tuition and fees and intergovernmental revenues.

The original appropriations of \$9,284,470 stayed fairly constant. Final appropriations were \$9,600,748. The appropriations were increased based on increases in anticipated revenues. Expenditures, however, were only \$8,299,731 or \$1,301,017 less than anticipated. This \$1,301,017 difference is due to the fact that available resources increased throughout the fiscal year.

## Capital Assets and Debt Administration

### *Capital Assets*

At the end of fiscal year 2004, the School District had \$10,112,432 invested in land, buildings, equipment, and vehicles with \$9,702,300 used for governmental activities. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003:

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$408,500	\$408,500	\$0	\$0	\$408,500	\$408,500
Land Improvements	44,076	60,574	0	0	44,076	60,574
Buildings and Improvements	8,537,536	428,284	261,172	5,620	8,798,708	433,904
Furniture and Equipment	403,642	431,477	148,960	37,926	552,602	469,403
Vehicles	308,546	353,487	0	0	308,546	353,487
Construction in Progress	0	7,133,909	0	0	0	7,133,909
Totals	<u>\$9,702,300</u>	<u>\$8,816,231</u>	<u>\$410,132</u>	<u>\$43,546</u>	<u>\$10,112,432</u>	<u>\$8,859,777</u>

**Fredericktown Local School District**

*Management's Discussion and Analysis  
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Unaudited*

The primary increase occurred with buildings, as a result of the K-3 building construction being completed. For more information on capital assets, refer to Note 8 to the Basic Financial Statements.

For fiscal year 2001, a change in Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2004, this amounted to \$152,452 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The School District has budgeted to meet these requirements. For more information, refer to Note 17 to the Basic Financial Statements.

**Debt**

At June 30, 2004 the School District had \$7,740,000 in bonds outstanding with \$145,000 due within one year. Table 5 summarizes the bonds outstanding:

(Table 5)  
Outstanding Debt, at Year End

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds:		
2001 School Improvements	\$7,645,000	\$7,760,000
Energy Conservation Bonds	95,000	115,000
Total	<u>\$7,740,000</u>	<u>\$7,875,000</u>

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

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

At June 30, 2004, the School District's overall legal debt margin was \$3,817,409 with an unvoted debt margin of \$121,109. For more information, refer to Note 13 to the Basic Financial Statements.

**Current Issues Affecting Financial Condition**

On June 25, 2004, the general fund advanced \$390,371 to the self-insurance fund to off-set a deficit balance, with anticipation of returning the money in the next three fiscal years. A twenty six percent increase in premiums was implemented effective July 1, 2004. The School District has established a medical benefits committee of staff, administration and board members. During negotiations, the School District plans to increase deductibles, out-of-pocket expenses, increased prescription drug co-pay and implemented higher deductibles and higher out-of-pocket expenses for non-PPO expenses.

## **Fredericktown Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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The end of fiscal year 2004 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on July 15, 2004 with a one year salary set at a two percent increase with re-opener on salary for the last two years of the contract. The end of fiscal year 2004 also marked the expiration of the classified employees three year contract. A new three-year labor agreement was approved June 29, 2004. Their economic package contained in the new contract provides for 2 percent increase for the first year with a re-opener on insurance and salary on May 2005.

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

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

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

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

Although the School District was not funded for fiscal year 2005, a concerted effort is being made to get funding for fiscal year 2006. If funding does occur, we anticipate ground breaking in the Spring of 2006 and to move into the completed facility in August 2007.

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the School District. Management must plan expenses accordingly, staying within the School District's five-year plan.

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 decision is unconstitutional.

## **Fredericktown Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
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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 on its financial operations.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

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

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

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**Fredericktown Local School District**

*Statement of Net Assets*

*June 30, 2004*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,396,595	\$61,157	\$2,457,752
Cash and Cash Equivalents			
In Segregated Accounts	811	0	811
With Fiscal Agents	148,855	0	148,855
Accrued Interest Receivable	6,369	0	6,369
Accounts Receivable	1,328	0	1,328
Intergovernmental Receivable	28,119	10,139	38,258
Taxes Receivable	3,539,520	0	3,539,520
Internal Balances	46,211	(46,211)	0
Inventory Held for Resale	0	4,014	4,014
Materials and Supplies Inventory	0	649	649
Deferred Charges	88,487	0	88,487
Nondepreciable Capital Assets	408,500	0	408,500
Depreciable Capital Assets, Net	9,293,800	410,132	9,703,932
<i>Total Assets</i>	<u>15,958,595</u>	<u>439,880</u>	<u>16,398,475</u>
<b>Liabilities</b>			
Accounts Payable	21,033	4,333	25,366
Contracts Payable	38,057	0	38,057
Accrued Wages Payable	591,147	18,939	610,086
Retainage Payable	87,835	0	87,835
Intergovernmental Payable	325,725	24,758	350,483
Matured Compensated Absences Payable	15,411	0	15,411
Deferred Revenue	2,103,976	0	2,103,976
Matured Bonds Payable	48,000	0	48,000
Matured Interest Payable	13,020	0	13,020
Accrued Interest Payable	35,036	0	35,036
Claims Payable	354,964	0	354,964
Long-Term Liabilities:			
Due Within One Year	235,156	2,532	237,688
Due In More Than One Year	8,188,595	14,612	8,203,207
<i>Total Liabilities</i>	<u>12,057,955</u>	<u>65,174</u>	<u>12,123,129</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,050,787	410,132	2,460,919
Restricted for:			
Capital Projects	387,682	0	387,682
Debt Service	458,691	0	458,691
Other Purposes	107,491	0	107,491
Unrestricted	895,989	(35,426)	860,563
<i>Total Net Assets</i>	<u>\$3,900,640</u>	<u>\$374,706</u>	<u>\$4,275,346</u>

See accompanying notes to the basic financial statements\_ 13 -

**Fredericktown Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
Instruction:				
Regular	\$4,174,479	\$359,988	\$49,500	\$23,925
Special	1,535,412	1,495	280,739	0
Vocational	59,879	0	0	0
Adult/Continuing	6,377	0	9,096	0
Support Services:				
Pupil	372,138	0	5,828	0
Instructional Staff	695,310	0	79,461	0
Board of Education	43,167	0	0	0
Administration	690,872	0	2,925	0
Fiscal	235,848	0	0	0
Business	49,744	0	0	0
Operation and Maintenance of Plant	536,323	4,837	0	0
Pupil Transportation	537,451	0	0	0
Central	9,000	0	9,000	0
Extracurricular Activities	411,022	183,327	0	0
Interest and Fiscal Charges	403,720	0	0	0
<i>Total Governmental Activities</i>	<u>9,760,742</u>	<u>549,647</u>	<u>436,549</u>	<u>23,925</u>
<b>Business-Type Activities</b>				
Food Service	379,995	195,842	95,554	0
Latchkey	30,247	27,259	0	0
Uniform School Supplies	30,085	25,728	0	0
<i>Total Business-Type Activities</i>	<u>440,327</u>	<u>248,829</u>	<u>95,554</u>	<u>0</u>
<i>Totals</i>	<u><u>\$10,201,069</u></u>	<u><u>\$798,476</u></u>	<u><u>\$532,103</u></u>	<u><u>\$23,925</u></u>

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Gain on Sale of Capital Assets

Investment Earnings

Miscellaneous

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

Change in Net Assets

*Net Assets Beginning of Year (Restated - See Note 3)*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$3,741,066)	\$0	(\$3,741,066)
(1,253,178)	0	(1,253,178)
(59,879)	0	(59,879)
2,719	0	2,719
(366,310)	0	(366,310)
(615,849)	0	(615,849)
(43,167)	0	(43,167)
(687,947)	0	(687,947)
(235,848)	0	(235,848)
(49,744)	0	(49,744)
(531,486)	0	(531,486)
(537,451)	0	(537,451)
0	0	0
(227,695)	0	(227,695)
(403,720)	0	(403,720)
<u>(8,750,621)</u>	<u>0</u>	<u>(8,750,621)</u>
0	(88,599)	(88,599)
0	(2,988)	(2,988)
<u>0</u>	<u>(4,357)</u>	<u>(4,357)</u>
0	(95,944)	(95,944)
<u>(8,750,621)</u>	<u>(95,944)</u>	<u>(8,846,565)</u>
3,700,780	0	3,700,780
689,654	0	689,654
301,754	0	301,754
4,405,872	0	4,405,872
143,702	0	143,702
58,227	0	58,227
<u>117,045</u>	<u>21,788</u>	<u>138,833</u>
9,417,034	21,788	9,438,822
<u>(427,734)</u>	<u>427,734</u>	<u>0</u>
<u>8,989,300</u>	<u>449,522</u>	<u>9,438,822</u>
238,679	353,578	592,257
<u>3,661,961</u>	<u>21,128</u>	<u>3,683,089</u>
<u>\$3,900,640</u>	<u>\$374,706</u>	<u>\$4,275,346</u>

**Fredericktown Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2004*

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,593,983	\$358,109	\$444,359	\$2,396,451
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	811	811
With Fiscal Agents	0	61,020	87,835	148,855
Accrued Interest Receivable	6,369	0	0	6,369
Accounts Receivable	1,328	0	0	1,328
Interfund Receivable	391,871	0	0	391,871
Intergovernmental Receivable	0	0	28,119	28,119
Taxes Receivable	2,798,665	484,529	256,326	3,539,520
<i>Total Assets</i>	<u>\$4,792,216</u>	<u>\$903,658</u>	<u>\$817,450</u>	<u>\$6,513,324</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$19,008	\$0	\$2,025	\$21,033
Contracts Payable	0	0	38,057	38,057
Accrued Wages Payable	554,705	0	36,442	591,147
Intergovernmental Payable	121,898	0	3,289	125,187
Matured Compensated Absences Payable	15,411	0	0	15,411
Matured Bonds Payable	0	48,000	0	48,000
Matured Interest Payable	0	13,020	0	13,020
Retainage Payable	0	0	87,835	87,835
Deferred Revenue	1,802,389	280,059	194,344	2,276,792
<i>Total Liabilities</i>	<u>2,513,411</u>	<u>341,079</u>	<u>361,992</u>	<u>3,216,482</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	188,355	0	49,750	238,105
Reserved for Property Taxes	996,276	204,470	90,101	1,290,847
Unreserved, Undesignated Reported In:				
General Fund	1,094,174	0	0	1,094,174
Special Revenue Funds	0	0	53,885	53,885
Debt Service Funds	0	358,109	0	358,109
Capital Projects Funds	0	0	261,722	261,722
<i>Total Fund Balances</i>	<u>2,278,805</u>	<u>562,579</u>	<u>455,458</u>	<u>3,296,842</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,792,216</u>	<u>\$903,658</u>	<u>\$817,450</u>	<u>\$6,513,324</u>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

<b>Total Governmental Funds Balances</b>		\$3,296,842
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,702,300
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	144,697	
Intergovernmental	28,119	
Total		172,816
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the statement of net assets.		(745,191)
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.		44,711
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(200,538)
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. Accrued Interest Payable		(35,036)
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on a full accrual basis.		
Issuance costs	92,027	
Amount expensed	(3,540)	
Total		88,487
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(7,645,000)	
General Obligation Bond Premium	(91,772)	
Compensated Absences	(591,979)	
Energy Conservation Bonds	(95,000)	
Total		(8,423,751)
<i>Net Assets of Governmental Activities</i>		<b>\$3,900,640</b>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$3,688,034	\$688,863	\$300,766	\$4,677,663
Intergovernmental	4,310,333	65,790	475,640	4,851,763
Interest	55,976	0	2,251	58,227
Tuition and Fees	359,988	0	1,495	361,483
Extracurricular Activities	0	0	183,327	183,327
Rentals	4,837	0	0	4,837
Contributions and Donations	0	0	9,096	9,096
Miscellaneous	116,245	0	800	117,045
<i>Total Revenues</i>	<u>8,535,413</u>	<u>754,653</u>	<u>973,375</u>	<u>10,263,441</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,563,149	0	70,508	3,633,657
Special	1,202,001	0	291,547	1,493,548
Vocational	62,756	0	0	62,756
Adult/Continuing	0	0	6,377	6,377
Support Services:				
Pupil	347,858	0	6,317	354,175
Instructional Staff	544,665	0	99,389	644,054
Board of Education	40,641	0	0	40,641
Administration	757,987	0	3,000	760,987
Fiscal	222,612	13,217	0	235,829
Business	49,744	0	0	49,744
Operation and Maintenance of Plant	580,390	0	0	580,390
Pupil Transportation	444,762	0	0	444,762
Central	0	0	9,000	9,000
Extracurricular Activities	257,456	0	158,007	415,463
Capital Outlay	0	0	1,499,642	1,499,642
Debt Service:				
Principal Retirement	28,054	115,000	0	143,054
Interest and Fiscal Charges	6,285	398,005	0	404,290
<i>Total Expenditures</i>	<u>8,108,360</u>	<u>526,222</u>	<u>2,143,787</u>	<u>10,778,369</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>427,053</u>	<u>228,431</u>	<u>(1,170,412)</u>	<u>(514,928)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	165,320	165,320
Transfers Out	(70,000)	0	0	(70,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(70,000)</u>	<u>0</u>	<u>165,320</u>	<u>95,320</u>
<i>Net Change in Fund Balances</i>	357,053	228,431	(1,005,092)	(419,608)
<i>Fund Balances Beginning of Year</i>	<u>1,921,752</u>	<u>334,148</u>	<u>1,460,550</u>	<u>3,716,450</u>
<i>Fund Balances End of Year</i>	<u>\$2,278,805</u>	<u>\$562,579</u>	<u>\$455,458</u>	<u>\$3,296,842</u>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** (\$419,608)

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

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

Capital Assets Additions	1,512,059	
Current Year Depreciation	<u>(604,372)</u>	
Total		907,687

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (21,618)

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

Delinquent Property Taxes	14,525	
Intergovernmental	<u>5,487</u>	
Total		20,012

Repayment of school improvement bonds, energy loans and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

School Improvement Bonds	115,000	
Energy Conservation Bonds	20,000	
Capital Leases	<u>8,054</u>	
Total		143,054

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

Compensated Absences	25,048	
Pension Obligations	<u>(130,542)</u>	
Total		(105,494)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.

Bond Issuance Costs	(3,450)	
Bond Premium	3,746	
Accrued Interest	<u>274</u>	
Total		570

The internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year. (285,924)

*Change in Net Assets of Governmental Activities* \$238,679

**Fredericktown Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$3,093,600	\$3,116,382	\$3,116,524	\$142
Intergovernmental	4,052,340	4,290,039	4,310,333	20,294
Interest	75,000	75,000	49,607	(25,393)
Tuition and Fees	71,000	362,526	359,988	(2,538)
Rentals	6,000	6,000	4,837	(1,163)
Miscellaneous	114,026	103,297	114,926	11,629
<i>Total Revenues</i>	7,411,966	7,953,244	7,956,215	2,971
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,377,551	4,508,778	3,558,703	950,075
Special	1,071,075	1,072,075	974,531	97,544
Vocational	88,577	78,577	63,174	15,403
Other	103,909	288,909	261,466	27,443
Support Services:				
Pupil	366,122	369,762	343,733	26,029
Instructional Staff	595,854	586,874	540,422	46,452
Board of Education	111,454	96,454	93,299	3,155
Administration	774,267	782,367	762,567	19,800
Fiscal	238,403	241,003	224,577	16,426
Business	68,497	72,835	69,804	3,031
Operation and Maintenance of Plant	670,274	701,598	650,556	51,042
Pupil Transportation	548,794	509,823	475,970	33,853
Extracurricular Activities	244,075	266,075	255,311	10,764
Debt Service:				
Principal Retirement	20,000	20,000	20,000	0
Interest and Fiscal Charges	5,618	5,618	5,618	0
<i>Total Expenditures</i>	9,284,470	9,600,748	8,299,731	1,301,017
<i>Excess of Revenues Under Expenditures</i>	(1,872,504)	(1,647,504)	(343,516)	1,303,988
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	500	500	0	(500)
Advances In	0	120,000	120,000	0
Advances Out	(100,000)	(400,000)	(391,871)	8,129
Transfers Out	(100,000)	(145,000)	(70,000)	75,000
<i>Total Other Financing Sources (Uses)</i>	(199,500)	(424,500)	(341,871)	82,629
<i>Net Change in Fund Balance</i>	(2,072,004)	(2,072,004)	(685,387)	1,386,617
<i>Fund Balance Beginning of Year</i>	1,929,288	1,929,288	1,929,288	0
Prior Year Encumbrances Appropriated	142,716	142,716	142,716	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$1,386,617	\$1,386,617

See accompanying notes to the basic financial statements

**Fredericktown Local School District**

*Statement of Fund Net Assets*

*Proprietary Funds*

*June 30, 2004*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Food Service	Other Enterprise Funds	Total Enterprise Funds	
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$29,798	\$31,359	\$61,157	\$144
Intergovernmental Receivable	10,139	0	10,139	0
Inventory Held for Resale	4,014	0	4,014	0
Materials and Supplies Inventory	649	0	649	0
<i>Total Current Assets</i>	44,600	31,359	75,959	144
Capital Assets, Net	410,132	0	410,132	0
<i>Total Assets</i>	454,732	31,359	486,091	144
<b>Liabilities</b>				
Accounts Payable	128	4,205	4,333	0
Accrued Wages Payable	18,939	0	18,939	0
Interfund Payable	0	1,500	1,500	390,371
Intergovernmental Payable	24,165	593	24,758	0
Compensated Absences Payable	2,532	0	2,532	0
Claims Payable	0	0	0	354,964
<i>Total Current Liabilities</i>	45,764	6,298	52,062	745,335
Long-Term Liabilities:				
Compensated Absences Payable (net of current portion)	14,612	0	14,612	0
<i>Total Liabilities</i>	60,376	6,298	66,674	745,335
<b>Net Assets</b>				
Invested in Capital Assets	410,132	0	410,132	0
Unrestricted (Deficit)	(15,776)	25,061	9,285	(745,191)
<i>Total Net Assets(Deficit)</i>	\$394,356	\$25,061	419,417	(\$745,191)
Some amounts reported for business-type activities in the statement of net assets are different because their share of internal service fund assets and liabilities are included.			(44,711)	
<i>Net Assets of Business-type Activities</i>			\$374,706	

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2004*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Food Service	Other Enterprise Funds	Total Enterprise Funds	
<b>Operating Revenues</b>				
Sales	\$195,842	\$52,987	\$248,829	\$0
Charges for Services	0	0	0	1,239,399
Miscellaneous	0	21,788	21,788	0
<i>Total Operating Revenues</i>	195,842	74,775	270,617	1,239,399
<b>Operating Expenses</b>				
Salaries	174,227	18,519	192,746	0
Fringe Benefits	77,716	2,937	80,653	0
Purchased Services	2,026	0	2,026	66,903
Materials and Supplies	0	38,876	23,407	0
Cost of Sales	86,033	0	101,502	0
Depreciation	20,614	0	20,614	0
Claims	0	0	0	1,476,670
Other	523	0	523	0
<i>Total Operating Expenses</i>	361,139	60,332	421,471	1,543,573
<i>Operating Loss</i>	(165,297)	14,443	(150,854)	(304,174)
<b>Non-Operating Revenues (Expenses)</b>				
Donated Commodities	15,739	0	15,739	0
Operating Grants	79,815	0	79,815	0
Loss on Disposal of Capital Assets	(606)	0	(606)	0
<i>Total Non-Operating Revenues (Expenses)</i>	94,948	0	94,948	0
<i>Loss Before Transfers and Capital Contributions</i>	(70,349)	14,443	(55,906)	(304,174)
Transfers In	70,000	0	70,000	0
Capital Contributions	357,734	0	357,734	0
<i>Change in Net Assets</i>	357,385	14,443	371,828	(304,174)
<i>Net Assets (Deficit) Beginning of Year</i>	36,971	10,618		(441,017)
<i>Net Assets (Deficit) End of Year</i>	\$394,356	\$25,061		(\$745,191)
Some amounts reported for business-type activities in the statement of activities are different because their share of the change internal service fund assets and liabilities are included.			(18,250)	
<i>Change in Net Assets of Business-type Activities</i>			\$353,578	

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**Fredericktown Local School District**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Fiscal Year Ended June 30, 2004*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Food Service	Other Enterprise Funds	Total Enterprise Funds	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$195,842	\$52,987	\$248,829	\$0
Cash Received from Transactions With Other Funds	0		0	1,239,399
Other Cash Receipts	0	21,788	21,788	0
Cash Payments to Employees for Services	(150,656)	(18,519)	(169,175)	0
Cash Payments for Employee Benefits	(97,959)	(2,344)	(100,303)	0
Cash Payments for Goods and Services	(74,052)	(34,723)	(108,775)	(66,903)
Cash Payments for Claims	0	0	0	(1,462,632)
Other Cash Payments	(523)	0	(523)	0
<i>Net Cash Used in Operating Activities</i>	<u>(127,348)</u>	<u>19,189</u>	<u>(108,159)</u>	<u>(290,136)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Grants Received	69,804	0	69,804	0
Advances In	0	1,500	1,500	390,371
Advances Out	0	0	0	(120,000)
Transfers In	70,000	0	70,000	0
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>139,804</u>	<u>1,500</u>	<u>141,304</u>	<u>270,371</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments for Capital Acquisitions	<u>(30,072)</u>	<u>0</u>	<u>(30,072)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(17,616)</u>	<u>20,689</u>	<u>3,073</u>	<u>(19,765)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>47,414</u>	<u>10,670</u>	<u>58,084</u>	<u>19,909</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$29,798</u></u>	<u><u>\$31,359</u></u>	<u><u>\$61,157</u></u>	<u><u>\$144</u></u>

(continued)

**Fredericktown Local School District**

*Statement of Cash Flows*

*Proprietary Funds (continued)*

*For the Fiscal Year Ended June 30, 2004*

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Food Service</u>	<u>All Other Enterprise Funds</u>	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>				
Operating Loss	(\$165,297)	\$14,443	(\$150,854)	(\$304,174)
Adjustments:				
Depreciation	20,614	0	20,614	0
Donated Commodities Received During the Year	15,739	0	15,739	0
(Increase) Decrease in Assets:				
Inventory Held for Resale	(1,083)	0	(1,083)	0
Materials and Supplies Inventory	(649)	0	(649)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	0	4,153	4,153	0
Accrued Wages	(594)	0	(594)	0
Compensated Absences Payable	(1,549)	0	(1,549)	0
Intergovernmental Payable	5,471	593	6,064	0
Claims Payable	0	0	0	14,038
<i>Net Cash Used in Operating Activities</i>	<u>(\$127,348)</u>	<u>\$19,189</u>	<u>(\$108,159)</u>	<u>(\$290,136)</u>

**Non-Cash Noncapital Activities**

Federal donated commodities in the amount of \$15,739 were recorded as revenue when received in the food service enterprise fund.

During fiscal year 2004, capital assets were donated from the capital facilities construction capital projects fund to the food service enterprise fund in the amount of \$357,734.

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2004*

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	<u>Student Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$25,600</u>
<b>Liabilities</b>	
Due to Students	<u>\$25,600</u>

See accompanying notes to the basic financial statements

# Fredericktown Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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## **Note 1 - Description of the School District**

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 52 classified employees and 88 certificated employees who provide services to 1,144 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

### *Reporting Entity*

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

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

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool. These organizations are presented in Note 15 to the basic financial statements.

## **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds unless those pronouncements conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the School District's accounting policies are described below.

# Fredericktown Local School District

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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### ***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

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

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

### ***B. Fund Accounting***

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

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

***General Fund*** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

## Fredericktown Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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***Bond Retirement Fund*** The debt service fund is used to account for property taxes and intergovernmental revenues, and the payment of, general long-term debt principal, interest and related costs.

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

***Proprietary Fund Types*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

***Enterprise Funds*** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

***Food Service Fund*** This fund accounts for the financial transactions related to the food service operations of the School District.

The School District also has two nonmajor enterprise funds; uniform school supplies which accounts for the sale of school supplies to students and latchkey which provides before and after school care.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical benefits.

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

### ***C. Measurement Focus***

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

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

## Fredericktown Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

#### ***D. Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

#### ***E. Cash and Cash Equivalents***

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

Throughout fiscal year 2004, the School District invested in Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, and Federal Agriculture Mortgage Bank Notes. However, these investments were no longer retained at year-end. The School District also had investments which were retained through year-end which were limited to STAROhio, the State Treasurer's Investment Pool, certificates of deposit, and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$55,976 which includes \$17,558 assigned from other School District funds.

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

The School District uses a fiscal agent to hold retainage on construction contracts and to service bonded debt as principal and interest payments come due. The balances in these accounts are presented as "cash and cash equivalents with fiscal agent."

#### ***F. Inventory***

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated food, purchased food and school supplies held for resale and materials and supplies held for consumption.

# Fredericktown Local School District

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

### G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

### H. Deferred Charges

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

### I. Bond Premium

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

### J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	5 - 50 years	N/A
Buildings and Improvements	8 - 50 years	50 years
Furniture and Equipment	5 - 20 years	6 - 20 years
Vehicles	7 - 10 years	N/A

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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#### ***K. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables.” Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### ***L. Compensated Absences***

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

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account “matured compensated absences payable” in the funds from which the employees will be paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

#### ***M. Accrued Liabilities and Long-Term Obligations***

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

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

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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#### ***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets for other purposes include resources held restricted for food service, student activities, providing early childhood education programs and reducing class-sizes.

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

#### ***O. Fund Balance Reserves***

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

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

#### ***P. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for food service, latchkey before/after care and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that is the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

#### ***Q. Contributions of Capital***

Contributions of capital in the proprietary fund financial statements arise from the contribution of capital assets from the governmental funds.

#### ***R. Interfund Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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#### ***S. Extraordinary and Special Items***

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

#### ***T. Estimates***

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

#### ***S. Budgetary Data***

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

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

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

#### **Note 3 – Changes in Accounting Principle and Restatement of Prior Year Balances**

For fiscal year 2004, the School district has implemented GASB Statement No. 39, "Determining Whether Certain Organization are Component Units." GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

The internal balances between the governmental and business-type activities were understated by \$26,461 at June 30, 2003. Net assets in the governmental funds increased from \$3,635,500 to \$3,661,961 and net assets in the business-type activities decreased from \$47,589 to \$21,128 at June 30, 2003.

## Fredericktown Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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#### **Note 4 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$357,053
Net Adjustment for Revenue Accruals	(579,198)
Advances In	120,000
Net Adjustment for Expenditure Accruals	15,995
Advances Out	(391,871)
Adjustment for Encumbrances	<u>(207,366)</u>
Budget Basis	<u><u>(\$685,387)</u></u>

#### **Note 5 - 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At June 30, 2004, the School District's self-insurance internal service fund had a balance of (\$390,151) with OME-RESA, a claims servicing pool (See Note 9). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk

## Fredericktown Local School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

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

**Cash on Hand** The School District had \$1,510 cash on hand at June 30, 2004.

**Deposits** At fiscal year-end, the carrying amount of the School District's deposits was \$622,481 and the bank balance was \$796,583. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance; and
2. \$596,583 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Investments** GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio which is not classified by degree of risk since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$929,221	\$929,221	\$929,221
STAROhio		1,382,122	1,382,122
Total	\$929,221	\$2,311,343	\$2,311,343

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

# Fredericktown Local School District

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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	Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$2,633,018	\$0
Cash On Hand	(1,510)	0
Cash Held By Fiscal Agent	390,151	0
Contract Retainage	(87,835)	
Investments that are part of Cash and Investments:		
Repurchase Agreements	(929,221)	929,221
STAROhio	(1,382,122)	1,382,122
GASB Statement 3	<u>\$622,481</u>	<u>\$2,311,343</u>

### Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

**Fredericktown Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$996,276 in the general fund, \$204,470 in the bond retirement debt service fund, and \$90,101 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$424,766 in the general fund, \$95,013 in the bond retirement debt service fund, and \$39,123 in the permanent improvement capital projects fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$98,306,410	81.51 %	\$100,451,450	82.94 %
Public Utility Personal	4,421,620	3.67	4,430,280	3.66
Tangible Personal Property	17,868,284	14.82	16,227,487	13.40
<b>Total</b>	<b>\$120,596,314</b>	<b>100.00 %</b>	<b>\$121,109,217</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation		\$54.53		\$54.53

**Note 7 - Receivables**

Receivables at June 30, 2004, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<b>Governmental Activities:</b>	
Title VI-R	\$28,119
<b>Business-Type Activities:</b>	
Food Service	<u>10,139</u>
Total Intergovernmental Receivables	<u>\$38,258</u>

**Fredericktown Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2004

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
<b>Governmental Activities</b>				
<i>Non-Depreciable Assets</i>				
Land	\$408,500	\$0	\$0	\$408,500
Construction in Progress	7,133,909	1,645,914	(8,779,823)	0
<i>Total Non-Depreciable Assets</i>	<u>7,542,409</u>	<u>1,645,914</u>	<u>(8,779,823)</u>	<u>408,500</u>
<i>Depreciable Assets</i>				
Land Improvements	834,372	0	0	834,372
Buildings and Improvements	2,292,538	8,422,089	(18,715)	10,695,912
Furniture and Equipment	1,284,904	158,872	(66,255)	1,377,521
Vehicles	728,880	65,007	0	793,887
<i>Total Depreciable Assets</i>	<u>5,140,694</u>	<u>8,645,968</u>	<u>(84,970)</u>	<u>13,701,692</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(773,798)	(16,498)	0	(790,296)
Buildings and Improvements	(1,864,254)	(296,825)	2,703	(2,158,376)
Furniture and Equipment	(853,427)	(181,101)	60,649	(973,879)
Vehicles	(375,393)	(109,948)	0	(485,341)
<i>Total Accumulated Depreciation</i>	<u>(3,866,872)</u>	<u>(604,372) *</u>	<u>63,352</u>	<u>(4,407,892)</u>
<i>Depreciable Capital Assets, Net</i>	<u>1,273,822</u>	<u>8,041,596</u>	<u>(21,618)</u>	<u>9,293,800</u>
Governmental Activities Capital Assets, Net	<u>\$8,816,231</u>	<u>\$9,687,510</u>	<u>(\$8,801,441)</u>	<u>\$9,702,300</u>
<b>Business-Type Activities</b>				
Buildings and Improvements	\$41,150	\$263,395	\$0	\$304,545
Furniture and Equipment	113,598	124,411	(2,274)	235,735
<i>Totals at Historical Cost</i>	<u>154,748</u>	<u>387,806</u>	<u>(2,274)</u>	<u>540,280</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(35,530)	(7,843)	0	(43,373)
Furniture and Equipment	(75,672)	(12,771)	1,668	(86,775)
<i>Total Accumulated Depreciation</i>	<u>(111,202)</u>	<u>(20,614) *</u>	<u>1,668</u>	<u>(130,148)</u>
Business-Type Activities Capital Assets, Net	<u>\$43,546</u>	<u>\$367,192</u>	<u>(\$606)</u>	<u>\$410,132</u>

**Fredericktown Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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\*Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities:</b>	
Instruction:	
Regular	\$402,627
Special	4,205
Vocational	4,983
Support Services:	
Pupil	2,662
Instructional Staff	10,921
Administration	46,190
Fiscal	2,999
Operation and Maintenance of Plant	12,793
Pupil Transportation	113,000
Extracurricular Activities	3,992
Total Governmental Depreciation Expense	\$604,372
 <b>Business-Type Activities:</b>	
Food Service	\$20,614

**Note 9 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance for buildings and contents, liability insurance and fleet insurance.

Type of Coverage	Coverage Amount
Property (Replacement Cost)	\$26,495,734
General Liability, in aggregate	4,000,000
General Liability, per occurrence	2,000,000
Fleet Insurance, single limit	2,000,000
Fleet Insurance, uninsured	1,000,000
Auto Medical Payments	5,000

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

**B. Workers' Compensation**

The School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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.

# Fredericktown Local School District

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

### C. Self-Insurance

The School District offers medical and surgical insurance to all employees, and dental insurance is offered to all certified employees through a self-insurance internal service fund. The School District is self insured with Self-Fund Plans, Incorporated, serving as the third party administrator. The claims liability of \$354,964 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2003 and 2004 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2003	\$259,224	\$1,123,747	\$1,042,045	\$340,926
2004	340,926	1,476,670	1,462,632	354,964

## Note 10 - Other Employee Benefits

### A. Compensated Absences

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

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

### B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to contracted employees through Self -Funded Plans, Incorporated. The Board pays the cost of the monthly premium, \$2.70 per employee.

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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#### **Note 11 - Pension Plans**

##### ***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$112,003, \$97,539 and \$63,584 respectively; 43.90 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

##### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$522,332, \$508,282, and \$361,361 respectively; 84.23 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,675 made by the School District and \$10,855 made by the plan members.

#### ***C. Social Security System***

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

#### **Note 12 - Postemployment Benefits**

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

All STRS retirees from the DB and Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$40,179 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. 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.

## Fredericktown Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$60,499.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended 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.

### Note 13 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/2003	Additions	Reductions	Principal Outstanding 6/30/2004	Amounts Due in One Year
<b>Governmental Activities</b>					
2001 School Improvement Bonds	\$7,760,000	\$0	\$115,000	\$7,645,000	\$125,000
Unamortized Premium	95,518	0	3,746	91,772	3,746
1997 Energy Conservation Bonds	115,000	0	20,000	95,000	20,000
Capital Leases	8,054	0	8,054	0	0
Compensated Absences	617,027	65,018	90,066	591,979	86,410
Total Governmental Activities	<u>\$8,595,599</u>	<u>\$65,018</u>	<u>\$236,866</u>	<u>\$8,423,751</u>	<u>\$235,156</u>
<b>Business-Type Activities</b>					
Compensated Absences	<u>\$18,693</u>	<u>\$2,548</u>	<u>\$4,097</u>	<u>\$17,144</u>	<u>\$2,532</u>

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

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

All general obligation and energy conservation bonds will be paid from property taxes.

**Fredericktown Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2004

Compensated absences will be paid from the general fund and from the food service fund.

The School District's overall debt margin was \$3,817,409 with an unvoted debt margin of \$121,109 at June 30, 2004. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
2005	\$125,000	\$393,445	\$20,000	\$4,548
2006	140,000	388,270	25,000	3,344
2007	175,000	381,839	25,000	2,006
2008	185,000	374,276	25,000	669
2009	190,000	366,260	0	0
2010-2014	1,100,000	1,684,960	0	0
2015-2019	1,435,000	1,327,398	0	0
2020-2024	1,880,000	878,900	0	0
2025-2029	2,415,000	326,690	0	0
Totals	<u>\$7,645,000</u>	<u>\$6,122,038</u>	<u>\$95,000</u>	<u>\$10,567</u>

**Note 14 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

**B. Litigation**

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

**Note 15 - Jointly Governed Organization and Public Entity Risk Pool**

**A. Jointly Governed Organization**

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$26,538 to TRECA during fiscal year 2004 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

# Fredericktown Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

## B. Insurance Purchasing Pool

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

## Note 16 - 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 decision is unconstitutional.

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

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

## Note 17 - Set-Asides

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

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

	Textbooks/ Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balances as of June 30, 2003	(\$113,560)	\$0
Current Year Set-aside Requirement	152,452	152,452
Current Year Offsets	0	(444,856)
Qualifying Disbursements	(184,325)	0
Total	(\$145,433)	(\$292,404)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$145,433)	(\$292,404)

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004*

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

#### **Note 18 – Interfund Balances and Transfers**

Advances made from the general fund to the self-insurance internal service and uniform school supplies enterprise funds were in the amounts of \$390,371 and \$1,500, respectively. These advances were made to prevent a deficit in cash and are still outstanding at June 30, 2004.

A transfer of \$70,000 was made during fiscal year 2004 from the general fund to the food service enterprise fund. This transfer was made to move unrestricted balances to support the program. During fiscal year 2004, the capital facilities construction capital projects fund bought capital assets for the food service enterprise fund in the amount of \$357,734 and is reflected on the Statement of Activities as a transfer out of the governmental activities and a transfer into the business-type activities.

#### **Note 19 – Compliance and Accountability**

##### ***A. Net Asset Deficit***

The internal service fund had a deficit balance of net assets of \$745,191 at June 30, 2004. However, management is currently analyzing the operations to determine steps to address this deficit balance.

##### ***B. Legal Compliance***

Contrary to Ohio Rev. Code Section 5705.10, the School District maintained a negative cash balance in the internal service fund throughout the fiscal year.

#### **Note 20—Error in Previously Issued Financial Statements**

The District's Food Service Fund was reported as a non-major enterprise fund in the District's fiscal year end June 30, 2004 report issued on February 4, 2005. However, the Food Service Fund met the major fund criteria outlined in Paragraph 76 of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. As a result, the Food Service Fund was required to be reported in a separate financial statement column instead of being aggregated in a single column with other non-major Enterprise Funds. The financial statements and notes have been revised to properly report the Food Service Fund as a major fund.

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## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 4, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated February 4, 2005.

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Fredericktown Local School District  
Knox County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by Government Auditing Standards  
Page 2

This report is intended solely for the information and use of the audit committee, management, and the Board of Education, and is not intended to be and should not be used by 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**

February 4, 2005

FREDERICKTON LOCAL SCHOOL DISTRICT  
KNOX COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2004

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

Finding Number	2004-001
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**Non-Compliance**

**Ohio Rev. Code Section 5705.10** requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

The District's Self-Insurance Fund operated with large negative fund cash balances throughout the fiscal year. On June 24, 2004 the Self-Insurance fund had a negative fund cash balance of \$390,371. On June 25, 2004 a cash advance was made from the General Fund to the Self-Insurance Fund for the amount of the negative fund balance.

The District should continue to assess the operations of the Self-Insurance Fund and take the actions necessary to alleviate the problems leading to the negative fund cash balances. The General Fund has had to advance monies to the Self Insurance fund to cover negative fund cash balances for the past three years. Instead of waiting until the year end to advance funds from the General Fund, advances should be made periodically to cover any anticipated deficit balances.





**Auditor of State  
Betty Montgomery**

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**FREDERICKTOWN LOCAL SCHOOL DISTRICT**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 29, 2005**