



**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fredericktown Local School District
Knox County
134 West Second Street
Fredericktown, Ohio 43011

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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures provides additional information and is not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditure to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 6, 2006

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- Total, net assets decreased \$137,846. Net assets of governmental activities decreased \$155,096, which represents a 3.98 percent decrease from 2004. Net assets of business-type activities increased \$17,250 from 2004.
- For governmental activities general revenues accounted for \$7,891,422 in revenue or 84.45 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$1,453,206, or 15.55 percent of total revenues of \$9,344,628.
- The School District had \$9,449,446 in expenses related to governmental activities; only \$1,453,206 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the general fund had \$8,054,090 in revenues and \$8,169,998 in expenditures. The general fund's fund balance decreased \$164,515 to \$2,114,290.
- Net assets for enterprise funds increased by \$17,250. Operating revenues of \$253,452, and grants of \$92,869, were below operating expenses of \$380,572. A \$45,000 transfer was made from the general fund and a \$5,278 capital contribution was 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, 2005
Unaudited*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" 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 8. 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, 2005
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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 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$7,192,996	\$6,256,295	\$37,936	\$29,748	\$7,230,932	\$6,286,043
Capital Assets	9,360,623	9,702,300	401,731	410,132	9,762,354	10,112,432
Total Assets	<u>16,553,619</u>	<u>15,958,595</u>	<u>439,667</u>	<u>439,880</u>	<u>16,993,286</u>	<u>16,398,475</u>
Liabilities						
Long-Term Liabilities	8,307,315	8,423,751	14,538	17,144	8,321,853	8,440,895
Other Liabilities	4,500,760	3,634,204	33,173	48,030	4,533,933	3,682,234
Total Liabilities	<u>12,808,075</u>	<u>12,057,955</u>	<u>47,711</u>	<u>65,174</u>	<u>12,855,786</u>	<u>12,123,129</u>
Net Assets						
Invested in Capital Assets, Net of Debt	1,850,570	2,050,787	401,731	410,132	2,252,301	2,460,919
Restricted	875,725	953,864	0	0	875,725	953,864
Unrestricted (Deficit)	<u>1,019,249</u>	<u>895,989</u>	<u>(9,775)</u>	<u>(35,426)</u>	<u>1,009,474</u>	<u>860,563</u>
Total Net Assets	<u><u>\$3,745,544</u></u>	<u><u>\$3,900,640</u></u>	<u><u>\$391,956</u></u>	<u><u>\$374,706</u></u>	<u><u>\$4,137,500</u></u>	<u><u>\$4,275,346</u></u>

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

The net assets of the School District business-type activities increased \$17,250 from the prior year. The general fund transferred \$45,000 to the food service fund to account for increased expenses.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services and Sales	\$638,887	\$549,647	\$253,452	\$248,829	\$892,339	\$798,476
Operating Grants and Contributions	814,319	436,549	92,869	95,554	907,188	532,103
Capital Grants and Contributions	0	23,925	0	0	0	23,925
Total Program Revenues	1,453,206	1,010,121	346,321	344,383	1,799,527	1,354,504
General Revenues:						
Property Taxes	3,432,670	4,692,188	0	0	3,432,670	4,692,188
Grants and Entitlements	4,195,227	4,405,872	0	0	4,195,227	4,405,872
Other	263,525	318,974	1,223	21,788	264,748	340,762
Total General Revenues	7,891,422	9,417,034	1,223	21,788	7,892,645	9,438,822
Total Revenues	9,344,628	10,427,155	347,544	366,171	9,692,172	10,793,326
Expenses						
Instruction	5,238,700	5,776,147	0	0	5,238,700	5,776,147
Support Services:						
Pupil and Instructional Staff	1,015,038	1,067,448	0	0	1,015,038	1,067,448
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central	1,085,245	1,028,631	0	0	1,085,245	1,028,631
Operation and Maintenance of Plant	763,580	536,323	0	0	763,580	536,323
Pupil Transportation	486,343	537,451	0	0	486,343	537,451
Extracurricular Activities	463,862	411,022	0	0	463,862	411,022
Interest and Fiscal Charges	396,678	403,720	0	0	396,678	403,720
Enterprise Operations	0	0	380,572	440,327	380,572	440,327
Total Expenses	9,449,446	9,760,742	380,572	440,327	9,830,018	10,201,069
Increase (Decrease) in Net Assets						
Before Transfers	(104,818)	666,413	(33,028)	(74,156)	(137,846)	592,257
Transfers	(50,278)	(427,734)	50,278	427,734	0	0
Increase (Decrease) in Net Assets	(155,096)	238,679	17,250	353,578	(137,846)	592,257
Net Assets Beginning of Year	3,900,640	3,661,961	374,706	21,128	4,275,346	3,683,089
Net Assets End of Year	\$3,745,544	\$3,900,640	\$391,956	\$374,706	\$4,137,500	\$4,275,346

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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Total revenues decreased by 11.36 percent. This reduction was due to:

- An almost \$24,000 reduction in capital grants and contributions due to the completion of the new elementary schools.
- Property taxes revenues decreased by 26.84 percent due to fluctuations in the amount available for advances from the counties in the School District. This reduction is due to the counties' tax collection year ending after the School District's fiscal year.

Total expenses decreased by 3.77 percent. This reduction was due to:

- A reduction in total instructional expenses of 10.30 percent due to payroll reductions, to offset the increase of 6.51 percent of the support services expenses, due to increases in operations and maintenance costs related to buildings.

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 \$3,432,670 in 2005. General revenues from grants and entitlements, such as the school foundation program, generated \$4,195,227. With the combination of taxes and intergovernmental funding over 80.68 percent of all expenses and intergovernmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 55.46 percent of governmental program expenses. Interest expense was 4.20 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.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction	\$5,238,700	\$5,776,147	(\$4,178,487)	(\$5,051,404)
Support Services:				
Pupil and Instructional Staff	1,015,038	1,067,448	(848,457)	(982,159)
Board of Education, Administration, Fiscal, Operation of Non-Instructional Services, Business and Central Operation and Maintenance of Plant	1,085,245	1,028,631	(1,073,320)	(1,016,706)
Pupil Transportation	763,580	536,323	(755,703)	(531,486)
Extracurricular Activities	486,343	537,451	(486,343)	(537,451)
Interest and Fiscal Charges	463,862	411,022	(257,252)	(227,695)
	396,678	403,720	(396,678)	(403,720)
Total Expenses	<u>\$9,449,446</u>	<u>\$9,760,742</u>	<u>(\$7,996,240)</u>	<u>(\$8,750,621)</u>

Business-Type Activities

Business-type activities include the food service operation, latchkey after school care and uniform school supplies. These programs had revenues of \$346,321 and expenses of \$380,572 for fiscal year 2005. 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 2006, the School District is taking steps to reduce expenses by using a food service management company.

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$9,426,420 and expenditures of \$9,621,056.

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 2005, the School District amended its general fund budget numerous times to allow for insignificant amendments.

For the general fund, budget basis revenue was \$8,303,801, above original budget estimates of \$7,409,092. Of this \$894,709 difference, most was due to taxes, tuition and fees and intergovernmental revenues.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The original appropriations of \$8,893,717 stayed fairly constant. Final appropriations were \$9,742,426. The appropriations were increased based on increases in anticipated revenues. Expenditures, however, were only \$8,230,576 or \$1,511,850 less than anticipated. This \$1,511,850 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 2005, the School District had \$9,762,354 invested in land, buildings, equipment, and vehicles with \$9,360,623 used for governmental activities. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004:

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$408,500	\$408,500	\$0	\$0	\$408,500	\$408,500
Land Improvements	59,050	44,076	0	0	59,050	44,076
Buildings and Improvements	8,230,032	8,537,536	255,129	261,172	8,485,161	8,798,708
Furniture and Equipment	430,951	403,642	146,602	148,960	577,553	552,602
Vehicles	232,090	308,546	0	0	232,090	308,546
Construction in Progress	0	0	0	0	0	0
Totals	\$9,360,623	\$9,702,300	\$401,731	\$410,132	\$9,762,354	\$10,112,432

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 2005, this amounted to \$156,024 for each set aside. For fiscal year 2005, the School District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The School District has budgeted to meet these requirements. For more information on capital assets, refer to Note 8 to the Basic Financial Statements.

Debt

At June 30, 2005 the School District had \$7,595,000 in bonds outstanding with \$165,000 due within one year. Table 5 summarizes the bonds outstanding:

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 5)
 Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
General Obligation Bonds:		
2001 School Improvements	\$7,520,000	\$7,645,000
Energy Conservation Bonds	75,000	95,000
Total	\$7,595,000	\$7,740,000

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, 2005, the School District's overall legal debt margin was \$3,924,412 with an unvoted debt margin of \$122,646. For more information, refer to Note 13 to the Basic Financial Statements.

Current Issues Affecting Financial Condition

The School District has established a medical benefits committee of staff, administration and board members. During 2004/05 negotiations, the School District increased deductibles, out-of-pocket expenses, increased prescription drug co-pay and implemented higher deductibles and higher out-of-pocket expenses for non-PPO expenses. The School District returned \$100,000 to the general fund on June 21, 2005.

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. Fiscal year 2006 reflects a two percent and fiscal year 2007 a two and a half percent increase in salary. 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 two percent increase for the first year with a re-opener on insurance and salary on May 2005. This re-opener also reflects the two percent and two and a half percent salary increase for fiscal year 2006 and 2007. There were only minor changes to the insurance plan.

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

Fredericktown Local School District

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

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

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

Although the School District was not funded for fiscal years 2004 or 2005, through a concerted effort, the School District was approved for exceptional needs and the School Board accepted the financial plan August 18, 2005. Because the original Master Plan called for renovation of the High School at an estimated cost of \$4 Million and today the estimated cost is \$8 Million, OSFC recommends that we build a new High School Building. The project now reflects a K-12 building. We anticipate ground breaking in the Spring of 2006 and to move into the completed facility in August 2008.

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.

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.

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Fredericktown Local School District

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,838,847	\$63,251	\$2,902,098
Cash and Cash Equivalents			
In Segregated Accounts	2,144	0	2,144
Cash and Cash Equivalents			
With Fiscal Agents	61,020	0	61,020
Accrued Interest Receivable	1,285	0	1,285
Accounts Receivable	44,327	94	44,421
Intergovernmental Receivable	25,723	0	25,723
Taxes Receivable	4,101,869	0	4,101,869
Internal Balances	32,834	(32,834)	0
Inventory Held for Resale	0	6,118	6,118
Materials and Supplies Inventory	0	1,307	1,307
Deferred Charges	84,947	0	84,947
Nondepreciable Capital Assets	408,500	0	408,500
Depreciable Capital Assets, Net	8,952,123	401,731	9,353,854
<i>Total Assets</i>	<u>16,553,619</u>	<u>439,667</u>	<u>16,993,286</u>
Liabilities			
Accounts Payable	45,282	928	46,210
Accrued Wages Payable	577,539	15,316	592,855
Intergovernmental Payable	195,160	16,929	212,089
Matured Compensated Absences Payable	31,052	0	31,052
Deferred Revenue	3,230,246	0	3,230,246
Matured Bonds Payable	48,000	0	48,000
Matured Interest Payable	13,020	0	13,020
Accrued Interest Payable	33,927	0	33,927
Claims Payable	326,534	0	326,534
Long-Term Liabilities:			
Due Within One Year	205,855	777	206,632
Due In More Than One Year	8,101,460	13,761	8,115,221
<i>Total Liabilities</i>	<u>12,808,075</u>	<u>47,711</u>	<u>12,855,786</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,850,570	401,731	2,252,301
Restricted for:			
Capital Projects	408,888	0	408,888
Debt Service	365,240	0	365,240
Other Purposes	101,597	0	101,597
Unrestricted (Deficit)	1,019,249	(9,775)	1,009,474
<i>Total Net Assets</i>	<u>\$3,745,544</u>	<u>\$391,956</u>	<u>\$4,137,500</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Instruction:			
Regular	\$4,009,469	\$424,400	\$68,401
Special	1,167,356	0	556,204
Vocational	58,146	0	10,925
Adult/Continuing	3,729	0	283
Support Services:			
Pupil	351,055	0	6,128
Instructional Staff	663,983	0	160,453
Board of Education	37,134	0	0
Administration	729,496	0	2,925
Fiscal	241,018	0	0
Business	60,952	0	0
Operation and Maintenance of Plant	763,580	7,877	0
Pupil Transportation	486,343	0	0
Central	8,707	0	9,000
Operation of Non-Instructional Services	7,938	0	0
Extracurricular Activities	463,862	206,610	0
Interest and Fiscal Charges	396,678	0	0
<i>Total Governmental Activities</i>	<u>9,449,446</u>	<u>638,887</u>	<u>814,319</u>
Business-Type Activities			
Food Service	333,637	197,686	92,869
Latchkey	27,211	23,787	0
Uniform School Supplies	19,724	31,979	0
<i>Total Business-Type Activities</i>	<u>380,572</u>	<u>253,452</u>	<u>92,869</u>
<i>Totals</i>	<u><u>\$9,830,018</u></u>	<u><u>\$892,339</u></u>	<u><u>\$907,188</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

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
(\$3,516,668)	\$0	(\$3,516,668)
(611,152)	0	(611,152)
(47,221)	0	(47,221)
(3,446)	0	(3,446)
(344,927)	0	(344,927)
(503,530)	0	(503,530)
(37,134)	0	(37,134)
(726,571)	0	(726,571)
(241,018)	0	(241,018)
(60,952)	0	(60,952)
(755,703)	0	(755,703)
(486,343)	0	(486,343)
293	0	293
(7,938)	0	(7,938)
(257,252)	0	(257,252)
(396,678)	0	(396,678)
<u>(7,996,240)</u>	<u>0</u>	<u>(7,996,240)</u>
0	(43,082)	(43,082)
0	(3,424)	(3,424)
<u>0</u>	<u>12,255</u>	<u>12,255</u>
<u>0</u>	<u>(34,251)</u>	<u>(34,251)</u>
<u>(7,996,240)</u>	<u>(34,251)</u>	<u>(8,030,491)</u>
2,869,066	0	2,869,066
371,939	0	371,939
191,665	0	191,665
4,195,227	0	4,195,227
72,321	0	72,321
191,204	1,223	192,427
<u>7,891,422</u>	<u>1,223</u>	<u>7,892,645</u>
<u>(50,278)</u>	<u>50,278</u>	<u>0</u>
<u>7,841,144</u>	<u>51,501</u>	<u>7,892,645</u>
(155,096)	17,250	(137,846)
<u>3,900,640</u>	<u>374,706</u>	<u>4,275,346</u>
<u>\$3,745,544</u>	<u>\$391,956</u>	<u>\$4,137,500</u>

Fredericktown Local School District

Balance Sheet

Governmental Funds

June 30, 2005

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,886,801	\$418,074	\$453,308	\$2,758,183
Cash and Cash Equivalents in Segregated Accounts	0	0	2,144	2,144
Cash and Cash Equivalents With Fiscal Agents	0	61,020		61,020
Accrued Interest Receivable	1,285	0	0	1,285
Accounts Receivable	43,285	0	1,042	44,327
Interfund Receivable	290,371	0	0	290,371
Intergovernmental Receivable	6,281	0	19,442	25,723
Taxes Receivable	3,369,053	477,462	255,354	4,101,869
<i>Total Assets</i>	<u>\$5,597,076</u>	<u>\$956,556</u>	<u>\$731,290</u>	<u>\$7,284,922</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$39,657	\$0	5,625	\$45,282
Accrued Wages Payable	545,035	0	32,504	577,539
Intergovernmental Payable	194,050	0	1,110	195,160
Matured Compensated Absences Payable	31,052	0	0	31,052
Matured Bonds Payable	0	48,000	0	48,000
Matured Interest Payable	0	13,020	0	13,020
Deferred Revenue	2,672,992	414,221	234,057	3,321,270
<i>Total Liabilities</i>	<u>3,482,786</u>	<u>475,241</u>	<u>273,296</u>	<u>4,231,323</u>
Fund Balances				
Reserved for Encumbrances	119,693	0	87,950	207,643
Reserved for Property Taxes	697,411	63,241	36,844	797,496
Unreserved, Undesignated Reported In:				
General Fund	1,297,186	0	0	1,297,186
Special Revenue Funds	0	0	38,563	38,563
Debt Service Funds	0	418,074	0	418,074
Capital Projects Funds	0	0	294,637	294,637
<i>Total Fund Balances</i>	<u>2,114,290</u>	<u>481,315</u>	<u>457,994</u>	<u>3,053,599</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,597,076</u>	<u>\$956,556</u>	<u>\$731,290</u>	<u>\$7,284,922</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, 2005*

Total Governmental Funds Balances		\$3,053,599
 <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.		9,360,623
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	9,303	
Intergovernmental	81,721	
Total		91,024
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(536,241)
An Internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by business-type activities		32,834
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(33,927)
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	88,487	
Amount expensed	(3,540)	
Total		84,947
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	(7,520,000)	
General Obligation Bond Premium	(88,026)	
Compensated Absences	(624,289)	
Energy Conservation Bonds	(75,000)	
Total		(8,307,315)
<i>Net Assets of Governmental Activities</i>		\$3,745,544

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, 2005

	General	Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$2,915,919	\$388,981	\$198,340	\$3,503,240
Intergovernmental	4,423,510	60,494	537,831	5,021,835
Interest	70,472	0	1,849	72,321
Tuition and Fees	423,198	0	1,202	424,400
Extracurricular Activities	24,365	0	182,245	206,610
Rentals	6,527	0	283	6,810
Miscellaneous	190,099	0	1,105	191,204
<i>Total Revenues</i>	<u>8,054,090</u>	<u>449,475</u>	<u>922,855</u>	<u>9,426,420</u>
Expenditures				
Current:				
Instruction:				
Regular	3,854,265	0	76,379	3,930,644
Special	924,183	0	275,621	1,199,804
Vocational	53,922	0	2,700	56,622
Adult/Continuing	0	0	3,729	3,729
Support Services:				
Pupil	347,229	0	6,777	354,006
Instructional Staff	490,040	0	170,880	660,920
Board of Education	40,134	0	0	40,134
Administration	732,039	0	3,186	735,225
Fiscal	227,450	12,294	0	239,744
Business	60,952	0	0	60,952
Operation and Maintenance of Plant	676,807	0	0	676,807
Pupil Transportation	472,198	0	0	472,198
Central	0	0	8,707	8,707
Operation of Non-Instructional Services	3,234	0	418	3,652
Extracurricular Activities	262,997	0	171,173	434,170
Capital Outlay	0	0	200,749	200,749
Debt Service:				
Principal Retirement	20,000	125,000	0	145,000
Interest and Fiscal Charges	4,548	393,445	0	397,993
<i>Total Expenditures</i>	<u>8,169,998</u>	<u>530,739</u>	<u>920,319</u>	<u>9,621,056</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(115,908)	(81,264)	2,536	(194,636)
Other Financing Sources (Uses)				
Sale of Capital Assets	25	0	0	25
Transfers Out	(48,632)	0	0	(48,632)
<i>Net Change in Fund Balances</i>	(164,515)	(81,264)	2,536	(243,243)
<i>Fund Balances Beginning of Year</i>	<u>2,278,805</u>	<u>562,579</u>	<u>455,458</u>	<u>3,296,842</u>
<i>Fund Balances End of Year</i>	<u>\$2,114,290</u>	<u>\$481,315</u>	<u>\$457,994</u>	<u>\$3,053,599</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, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$243,243)

*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 outlay exceeds depreciation in the current period.

Capital Assets Additions	186,781	
Current Year Depreciation	(389,472)	
Total	(202,691)	(202,691)

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.

(138,986)

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

Delinquent Property Taxes	(70,570)	
Intergovernmental	(12,572)	
Rentals	1,350	
Total	(81,792)	(81,792)

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

School Improvement Bonds	125,000	
Energy Conservation Bonds	20,000	
Total	145,000	145,000

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	(32,310)	
Pension Obligations	200,538	
Total	168,228	168,228

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	(3,540)	
Bond Premium	3,746	
Accrued Interest	1,109	
Total	1,315	1,315

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

197,073

Change in Net Assets of Governmental Activities

(\$155,096)

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$2,699,100	\$3,214,784	\$3,214,784	\$0
Intergovernmental	4,241,000	4,409,525	4,423,510	13,985
Interest	50,000	58,000	75,556	17,556
Tuition and Fees	310,000	416,500	423,198	6,698
Extracurricular Activities	0	24,000	24,365	365
Rentals	5,500	5,500	7,877	2,377
Miscellaneous	103,492	175,492	141,861	(33,631)
<i>Total Revenues</i>	7,409,092	8,303,801	8,311,151	7,350
Expenditures				
Current:				
Instruction:				
Regular	4,190,993	4,972,363	3,853,708	1,118,655
Special	1,075,200	1,093,171	942,127	151,044
Vocational	57,060	57,260	53,934	3,326
Other	0	0	7,350	(7,350)
Support Services:				
Pupil	361,935	362,839	351,619	11,220
Instructional Staff	527,276	526,126	494,638	31,488
Board of Education	124,995	104,995	40,434	64,561
Administration	807,938	787,813	749,294	38,519
Fiscal	242,120	231,945	220,379	11,566
Business	69,509	65,509	63,268	2,241
Operation and Maintenance of Plant	686,531	731,456	675,700	55,756
Pupil Transportation	475,756	506,395	489,943	16,452
Operation of Non-Instructional Services	1,000	1,500	833	667
Extracurricular Activities	248,856	276,506	262,801	13,705
Debt Service:				
Principal Retirement	20,000	20,000	20,000	0
Interest and Fiscal Charges	4,548	4,548	4,548	0
<i>Total Expenditures</i>	8,893,717	9,742,426	8,230,576	1,511,850
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,484,625)	(1,438,625)	80,575	1,519,200
Other Financing Sources (Uses)				
Sale of Capital Assets	500	500	25	(475)
Advances In	3,500	101,500	101,500	0
Advances Out	(200,000)	0	0	0
Transfers Out	(50,000)	(50,000)	(48,632)	1,368
<i>Total Other Financing Sources (Uses)</i>	(246,000)	52,000	52,893	893
<i>Net Change in Fund Balance</i>	(1,730,625)	(1,386,625)	133,468	1,520,093
<i>Fund Balance Beginning of Year</i>	1,386,617	1,386,617	1,386,617	0
Prior Year Encumbrances Appropriated	207,366	207,366	207,366	0
<i>Fund Balance End of Year</i>	(\$136,642)	\$207,358	\$1,727,451	\$1,520,093

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2005

	Business-Type Activities - Enterprise Funds			
	Food Service	All Other Enterprise Funds	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Assets				
Equity in Pooled Cash and Cash Equivalents	\$28,338	\$34,913	\$63,251	\$80,664
Accounts Receivable	0	94	94	0
Inventory Held for Resale	6,118	0	6,118	0
Materials and Supplies Inventory	1,307	0	1,307	0
<i>Total Current Assets</i>	35,763	35,007	70,770	80,664
Capital Assets, Net	401,731	0	401,731	0
<i>Total Assets</i>	437,494	35,007	472,501	80,664
Liabilities				
Accounts Payable	0	928	928	0
Accrued Wages Payable	15,316	0	15,316	0
Interfund Payable	0	0	0	290,371
Intergovernmental Payable	16,836	93	16,929	0
Compensated Absences Payable	777	0	777	0
Claims Payable	0	0	0	326,534
<i>Total Current Liabilities</i>	32,929	1,021	33,950	616,905
Long-Term Liabilities:				
Compensated Absences Payable	13,761	0	13,761	0
<i>Total Liabilities</i>	46,690	1,021	47,711	616,905
Net Assets				
Invested in Capital Assets	401,731	0	401,731	0
Unrestricted (Deficit)	(10,927)	33,986	23,059	(536,241)
<i>Total Net Assets(Deficit)</i>	\$390,804	\$33,986	424,790	(\$536,241)

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.

(32,834)

Net Assets of Business-type Activities

\$391,956

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, 2005*

	<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>
Operating Revenues				
Sales	\$197,686	\$55,766	\$253,452	\$0
Charges for Services	0	0	0	1,476,044
Miscellaneous	1,129	94	1,223	0
<i>Total Operating Revenues</i>	<u>198,815</u>	<u>55,860</u>	<u>254,675</u>	<u>1,476,044</u>
Operating Expenses				
Salaries	113,021	18,861	131,882	0
Fringe Benefits	96,527	2,325	98,852	0
Purchased Services	2,730	0	2,730	69,540
Materials and Supplies	12,907	25,749	38,656	0
Cost of Sales	106,121	0	106,121	0
Depreciation	13,679	0	13,679	0
Claims	0	0	0	1,201,186
Other	529	0	529	0
<i>Total Operating Expenses</i>	<u>345,514</u>	<u>46,935</u>	<u>392,449</u>	<u>1,270,726</u>
<i>Operating Income (Loss)</i>	<u>(146,699)</u>	<u>8,925</u>	<u>(137,774)</u>	<u>205,318</u>
Non-Operating Revenues				
Donated Commodities	2,405	0	2,405	0
Operating Grants	90,464	0	90,464	0
<i>Total Non-Operating Revenues</i>	<u>92,869</u>	<u>0</u>	<u>92,869</u>	<u>0</u>
<i>Income (Loss) Before Transfers</i>	<u>(53,830)</u>	<u>8,925</u>	<u>(44,905)</u>	<u>205,318</u>
Transfers In	45,000	0	45,000	3,632
Capital Contributions	5,278	0	5,278	0
<i>Change in Net Assets</i>	<u>(3,552)</u>	<u>8,925</u>	<u>5,373</u>	<u>208,950</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>394,356</u>	<u>25,061</u>		<u>(745,191)</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$390,804</u>	<u>\$33,986</u>		<u>(\$536,241)</u>
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.			<u>11,877</u>	
<i>Change in Net Assets of Business-type Activities</i>			<u>\$17,250</u>	

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Service	All Other Enterprise Funds	Total Enterprise Funds	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$197,686	\$55,766	\$253,452	\$0
Cash Received from Transactions				
With Other Funds	0	0	0	1,476,044
Other Cash Receipts	1,129	0	1,129	0
Cash Payments to Employees for Services	(123,973)	(18,861)	(142,834)	0
Cash Payments for Employee Benefits	(99,133)	(2,825)	(101,958)	0
Cash Payments for Goods and Services	(111,976)	(29,026)	(141,002)	(69,540)
Cash Payments for Claims	0	0	0	(1,229,616)
Other Cash Payments	(529)	0	(529)	0
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(136,796)</u>	<u>5,054</u>	<u>(131,742)</u>	<u>176,888</u>
Cash Flows from Noncapital Financing Activities				
Operating Grants Received	90,336	0	90,336	0
Advances Out	0	(1,500)	(1,500)	(100,000)
Transfers In	45,000	0	45,000	3,632
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>135,336</u>	<u>(1,500)</u>	<u>133,836</u>	<u>(96,368)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(1,460)	3,554	2,094	80,520
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>29,798</u>	<u>31,359</u>	<u>61,157</u>	<u>144</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$28,338</u>	<u>\$34,913</u>	<u>\$63,251</u>	<u>\$80,664</u>
See accompanying notes to the basic financial statements				(continued)

Fredericktown Local School District

Statement of Cash Flows

Proprietary Funds (continued)

For the Fiscal Year Ended June 30, 2005

	<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>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities				
Operating Income (Loss)	(\$146,699)	\$8,925	(\$137,774)	\$205,318
Adjustments:				
Depreciation	13,679	0	13,679	0
Donated Commodities Received During the Year	2,405	0	2,405	0
(Increase) Decrease in Assets:				
Accounts Receivable	(2,104)	(94)	(2,198)	0
Materials and Supplies Inventory	9,481	0	9,481	0
Increase (Decrease) in Liabilities:				
Accounts Payable	0	(3,277)	(3,277)	0
Accrued Wages	(3,623)	0	(3,623)	0
Compensated Absences Payable	(2,606)	0	(2,606)	0
Intergovernmental Payable	(7,329)	(500)	(7,829)	0
Claims Payable	0	0	0	(28,430)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>(\$136,796)</u>	<u>\$5,054</u>	<u>(\$131,742)</u>	<u>\$176,888</u>

Non-Cash Noncapital Activities

Federal donated commodities in the amount of \$2,405 were recorded as revenue when received in the food service enterprise fund.

During fiscal year 2005, capital assets were donated from the capital facilities construction capital projects fund to the food service enterprise fund in the amount of \$5,704.

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$20,950</u>
Liabilities	
Due to Students	<u>\$20,950</u>

See accompanying notes to the basic financial statements

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Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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 46 classified employees and 85 certificated employees who provide services to 1,149 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 14 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements 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 three 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, 2005*

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

relationship between the government-wide statements and the statements for governmental funds. 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, 2005, but which were levied to finance fiscal year 2006 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.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

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

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.

During fiscal year 2005, investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

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 2005 amounted to \$70,472 which includes \$21,038 assigned from other School District funds.

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

The School District participates in the OME-RESA insurance consortium for self-insurance. These monies are reflected on statement of net assets as "cash and cash equivalents with fiscal agents." The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium.

F. Inventory

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

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

G. 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.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

H. 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.

I. 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

J. 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.

K. 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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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.

L. 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, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$875,725 of restricted net assets, \$766,554 which are restricted by enabling legislation approved by the District's voters for the purpose of debt service payments and capital improvements. Net assets for other purposes include providing early childhood education programs, reducing class-sizes, and student activities.

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

N. 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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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.

O. 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 and after school program 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.

P. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arises from the contribution of capital assets from government funds.

Q. 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.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 and No. 40 did not affect the presentation of the financial statements of the School District. The implementation of GASB Technical Bulletin No. 2004-2 had no material effect on the financial statements as they were previously reported as of June 30, 2004.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings 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:

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

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

Net Change in Fund Balance	
GAAP Basis	(\$164,515)
Net Adjustment for Revenue Accruals	257,061
Advances In	101,500
Net Adjustment for Expenditure Accruals	98,772
Adjustment for Encumbrances	<u>(159,350)</u>
Budget Basis	<u><u>\$133,468</u></u>

Note 5 - Deposits and Investments

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

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

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

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

Interim monies held by the School District can 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 payment of principal and interest by the United States;

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

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

At June 30, 2005, the School District's self-insurance internal service fund had a balance of (\$221,405) 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 under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,862,889 of the School District's bank balance of \$1,962,889 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging institution's trust department or agent, but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2005, the School District only had an investment of \$1,322,779 in STAROhio, the State Treasurer's Investment Pool. This investment has an average maturity of 33 days.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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, 2005 was \$697,411 in the general fund, \$63,241 in the bond retirement debt service fund, and \$36,844 in the permanent improvement capital projects fund. 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.

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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$100,451,450	82.94 %	\$102,296,810	83.41 %
Public Utility Personal	4,430,280	3.66	4,551,520	3.71
Tangible Personal Property	16,227,487	13.40	15,797,190	12.88
Total	\$121,109,217	100.00 %	\$122,645,520	100.00 %
Tax rate per \$1,000 of assessed valuation		\$54.09		\$54.09

Note 7 - Receivables

Receivables at June 30, 2005, 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:

	Amount
Government Activities	
Tuition	\$6,281
Title II-A	19,442
Total Governmental Activities	\$25,723

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$408,500	\$0	\$0	\$408,500
<i>Total Non-Depreciable Assets</i>	<u>408,500</u>	<u>0</u>	<u>0</u>	<u>408,500</u>
<i>Depreciable Assets</i>				
Land Improvements	834,372	0	(43,918)	790,454
Building and Improvements	10,695,912	17,669	(725,152)	9,988,429
Furniture and Equipment	1,377,521	169,112	(23,830)	1,522,803
Vehicles	793,887	0	(70,246)	723,641
<i>Total Depreciable Assets</i>	<u>13,701,692</u>	<u>186,781</u>	<u>(863,146)</u>	<u>13,025,327</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(790,296)	(4,579)	63,471	(731,404)
Building and Improvements	(2,158,376)	(194,009)	593,988	(1,758,397)
Furniture and Equipment	(973,879)	(133,141)	15,168	(1,091,852)
Vehicles	(485,341)	(57,743)	51,533	(491,551)
<i>Total Accumulated Depreciation</i>	<u>(4,407,892)</u>	<u>(389,472) *</u>	<u>724,160</u>	<u>(4,073,204)</u>
<i>Depreciable Capital Assets, Net</i>	<u>9,293,800</u>	<u>(202,691)</u>	<u>(138,986)</u>	<u>8,952,123</u>
Governmental Activities Capital Assets, Net	<u>\$9,702,300</u>	<u>(\$202,691)</u>	<u>(\$138,986)</u>	<u>\$9,360,623</u>
Business-Type Activities				
Buildings and Improvements	\$304,545	\$0	(\$8,528)	\$296,017
Furniture and Equipment	235,735	5,704	0	241,439
<i>Totals at Historical Cost</i>	<u>540,280</u>	<u>5,704</u>	<u>(8,528)</u>	<u>537,456</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(43,373)	(5,617)	8,102	(40,888)
Furniture and Equipment	(86,775)	(8,062)	0	(94,837)
<i>Total Accumulated Depreciation</i>	<u>(130,148)</u>	<u>(13,679)</u>	<u>8,102</u>	<u>(135,725)</u>
Business-Type Activities Capital Assets, Net	<u>\$410,132</u>	<u>(\$7,975)</u>	<u>(\$426)</u>	<u>\$401,731</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$201,877
Special	12,049
Vocational	4,434
Support Services:	
Pupil	5,610
Instructional Staff	10,442
Administration	33,977
Fiscal	2,927
Operation and Maintenance of Plant	29,028
Pupil Transportation	57,943
Extracurricular Activities	31,185
Total Depreciation Expense	<u>\$389,472</u>

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 2005, the School District contracted with Selective Insurance for buildings and contents, liability insurance and fleet insurance.

<u>Type of Coverage</u>	<u>Coverage Amount</u>
Property (Replacement Cost)	\$29,128,088
General Liability, in aggregate	3,000,000
General Liability, per occurrence	1,000,000
Fleet Insurance, single limit	1,000,000
Fleet Insurance, uninsured	1,000,000
Auto Medical Payments	5,000
Umbrella Coverage	5,000,000

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

B. Workers' Compensation

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.

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.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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 \$326,534 reported in the internal service fund at June 30, 2005 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 2004 and 2005 were:

	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance End of Year</u>
2004	\$340,926	\$1,476,670	\$1,462,632	\$354,964
2005	354,964	1,201,186	1,229,616	326,534

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.

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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$117,062, \$112,003 and \$97,539, respectively; 38 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

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.

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, 2005, 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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Retirement Board, upon recommendation 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, 2005, 2004, and 2003 were \$506,781, \$522,332 and \$508,282, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,969 made by the School District and \$11,857 made by the plan members.

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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or 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 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, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$38,983 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$59,506 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30,

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

Note 13 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005	Amounts Due in One Year
Governmental Activities					
2001 School Improvement Bonds	\$7,645,000	\$0	\$125,000	\$7,520,000	\$140,000
Unamortized Premium	91,772	0	3,746	88,026	3,764
1997 Energy Conservation Bonds	95,000	0	20,000	75,000	25,000
Compensated Absences	591,979	63,929	31,619	624,289	37,091
Total Governmental Activities					
Long-Term Liabilities	<u>\$8,423,751</u>	<u>\$63,929</u>	<u>\$180,365</u>	<u>\$8,307,315</u>	<u>\$205,855</u>
Business-Type Activities					
Compensated Absences	<u>\$17,144</u>	<u>\$318</u>	<u>\$2,924</u>	<u>\$14,538</u>	<u>\$777</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 bonds will be paid from property taxes.

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

The School District's overall debt margin was \$3,924,412 with an unvoted debt margin of \$122,646 at June 30, 2005. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Energy Conservation Bonds	
	Principal	Interest	Principal	Interest
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	200,000	357,775	0	0
2011-2015	1,155,000	1,625,527	0	0
2016-2020	1,520,000	1,241,755	0	0
2021-2025	1,975,000	666,200	0	0
2026-2029	1,980,000	326,690	0	0
Totals	<u>\$7,520,000</u>	<u>\$5,728,592</u>	<u>\$75,000</u>	<u>\$6,019</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 14 - 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 \$28,849 to TRECA during fiscal year 2005 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Insurance Purchasing Pool

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

Note 15 - 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, 2005.

B. Litigation

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

Note 16 - 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.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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.

	Materials Reserve	Improvements Reserve
Set-aside Reserve Balances as of June 30, 2004	(\$145,433)	(\$292,404)
Current Year Set-aside Requirement	156,024	156,024
Current Year Offsets	0	281,887
Qualifying Disbursements	164,541	0
Total	(\$153,950)	(\$418,267)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$153,950)	(\$418,267)

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This amount may be used to reduce the set-aside requirement of future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may be used to reduce the set-aside requirement for future years.

Note 17 – Interfund Advances and Transfers

The School District had total interfund advances of \$290,371 between the general fund and the self-insurance fund for the fiscal year. This is a decrease from last year’s interfund advances of \$391,871. Advances made to the general fund from the self-insurance internal services fund were in the amount of \$100,000 and from the uniform school supply fund in the amount of \$1,500. These advances were made for repayment of prior year advances.

Transfers made from the general fund to the internal service fund were in the amount of \$3,632 and to the food service fund in the amount of \$45,000. These transfers were made to move unrestricted balances to support the program. During fiscal year 2005, the capital facilities construction capital projects fund bought capital assets for the food service enterprise fund in the amount of \$5,278 and is reflected on the Statement of Activities as a transfer out of the governmental activities and a transfer into the business-type activities.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 18 – Net Asset and Fund Deficits

A. Fund Deficits

The following funds had deficit fund balances at June 30, 2005:

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
EMIS	\$3
Title VI-B	17,948
Title I	15,562
Title VI	1

The special revenue fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provided transfers when cash is required, not when accruals occur.

B. Net Asset Deficit

The internal service fund had a deficit balance of net assets of \$536,241 at June 30, 2005. However, management is currently analyzing the operations to determine steps to address this deficit balance.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Lunch Program	LL-P4 2005	10.555	\$ 82,603	\$ -	\$ 82,603	\$ -
Food Distribution Program	N/A	10.550	-	14,576	-	14,576
Breakfast Program	05PU-2005	10.553	1,762	-	1,762	-
Special Milk Program	02PU-2005	10.556	2,662	-	2,662	-
Total U.S. Department of Agriculture - Nutrition Cluster			<u>87,027</u>	<u>14,576</u>	<u>87,027</u>	<u>14,576</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1 2004	84.010	-	-	18,754	-
	C1-S1 2005		95,923	-	95,923	-
Total Title I Grants to Local Educational Agencies			<u>95,923</u>	<u>-</u>	<u>114,677</u>	<u>-</u>
Special Education Grants to States (IDEA Part B)	6B-SF 2004	84.027	-	-	19,451	-
	6B-SF 2005		256,229	-	256,026	-
Total Special Education Grants to State			<u>256,229</u>	<u>-</u>	<u>275,477</u>	<u>-</u>
Innovative Education Program Strategies	C2-S1 2004	84.298	-	-	148	-
	C2-S1 2005		4,686	-	4,686	-
Total Innovative Education Program Strategies			<u>4,686</u>	<u>-</u>	<u>4,834</u>	<u>-</u>
Safe and Drug Free Schools and Community - State Grant	DR-S1 2005	84.186	4,972	-	3,820	-
Title II-A Improving Teacher Quality	TR-S1 2004	84.367	-	-	4,459	-
	TR-S1 2005		60,039	-	57,805	-
Total Title II-A Improving Teacher Quality			<u>60,039</u>	<u>-</u>	<u>62,264</u>	<u>-</u>
Title II-D Education Technology State Grant	TJ-S1 2004	84.318	-	-	2,966	-
	TJ-S1 2005		2,550	-	2,500	-
Total Title II-D Education Technology State Grant			<u>2,550</u>	<u>-</u>	<u>5,466</u>	<u>-</u>
Vocational Education - Basic Grants to States	20A0-2005	84.048	20,000	-	16,552	-
Total U.S. Department of Education			<u>531,426</u>	<u>14,576</u>	<u>570,117</u>	<u>14,576</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities:</i>						
Medicaid, Title XIX	N/A	93.778	22,593	-	22,593	-
Total Federal Awards			<u><u>\$ 554,019</u></u>	<u><u>\$ 14,576</u></u>	<u><u>\$ 592,710</u></u>	<u><u>\$ 14,576</u></u>

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

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 6, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated January 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

January 6, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fredericktown Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Fredericktown Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

January 6, 2006

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOXOW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027— Special Education Grants to States IDEA Part B CFDA #84.010—TITLE 1 – Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Ohio Rev. Code Section 5705.10, negative fund balances in Self Insurance Fund throughout the year.	Yes	N/A



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
MARCH 14, 2006**