

Mary Taylor, CPA
Auditor of State

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio (the District), as of and for the year ended June 30, 2006, 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 major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio, as of June 30, 2006, and the respective changes in financial position, 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 May 30, 2007, 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 federal awards expenditure schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 30, 2007

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of the Fostoria City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$4,353,907 which represents a 58% increase from 2005.
- General revenues accounted for \$20,156,862 in revenue or 76.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,335,033 or 20.14% of all revenues. The District also had a special item for a gain on the sale of assets for \$1,003,745.
- The District had \$22,141,733 in expenses related to governmental activities; \$5,335,033 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The General fund, the District's only major governmental fund had \$21,624,241 in revenues and other financing sources and \$17,469,235 in expenditures. The fund balance of the general fund increased from \$2,537,450 to \$6,692,456.
- The District restated capital assets as described in Note 3.B. The District has \$10,476,041 in capital assets at June 30, 2006. This amount is net of accumulated depreciation in the amount of \$13,945,291. Fiscal year 2006 depreciation expense was \$684,162. Total capital assets, net of related debt to acquire or construct the assets, were \$3,546,458 at June 30, 2006.
- The District has \$8,914,048 in long-term liabilities outstanding at June 30, 2006. Of this total, \$836,388 is due within one year and \$8,077,660 is due in more than one year.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. The District has one major fund which is the general fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the 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 financial statements provide a detailed short-term view of the 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 basic financial statements.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The District restated net assets as described in Note 3.B.

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 22,020,585	\$ 17,779,868
Capital assets	<u>10,476,041</u>	<u>10,754,984</u>
Total assets	<u>32,496,626</u>	<u>28,534,852</u>
<u>Liabilities</u>		
Current liabilities	11,721,570	12,886,959
Long-term liabilities	<u>8,914,048</u>	<u>8,140,792</u>
Total liabilities	<u>20,635,618</u>	<u>21,027,751</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,546,458	3,702,809
Restricted	2,452,507	1,516,970
Unrestricted	<u>5,862,043</u>	<u>2,287,322</u>
Total net assets	<u>\$ 11,861,008</u>	<u>\$ 7,507,101</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

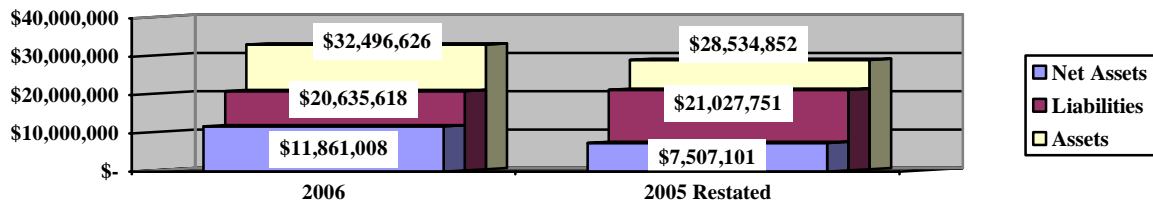
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$11,861,008.

At year-end, capital assets represented 32.24% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,546,458. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,452,507, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,862,043 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$ 898,577	\$ 884,931
Operating grants and contributions	4,421,747	4,514,541
Capital grants and contributions	14,709	
General revenues:		
Property taxes	10,539,380	9,598,789
Grants and entitlements	9,219,092	8,893,564
Investment earnings	349,630	126,924
Other	48,760	292,887
Total revenues	25,491,895	24,311,636

(continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,581,272	\$ 7,478,463
Special	2,549,337	2,487,326
Vocational	144,723	127,543
Adult/continuing education	67,142	
Other	1,758,314	1,416,060
Support services:		
Pupil	897,106	838,524
Instructional staff	1,708,845	1,224,469
Board of education	31,952	23,056
Administration	1,699,183	1,568,633
Fiscal	510,486	480,422
Business	219,764	274,530
Operations and maintenance	1,882,798	1,946,801
Pupil transportation	671,879	610,137
Central	137,017	123,654
Food service operations	1,087,718	990,519
Operations of non-instructional services	78,008	146,956
Extracurricular activities	392,312	422,981
Intergovernmental-pass through	277,189	350,815
Interest and fiscal charges	446,688	417,588
Total expenses	<u>22,141,733</u>	<u>20,928,477</u>
Special item	<u>1,003,745</u>	<u>-</u>
Change in net assets	4,353,907	3,383,159
Net assets at beginning of year (restated)	<u>7,507,101</u>	<u>4,123,942</u>
Net assets at end of year	<u>\$ 11,861,008</u>	<u>\$ 7,507,101</u>

Governmental Activities

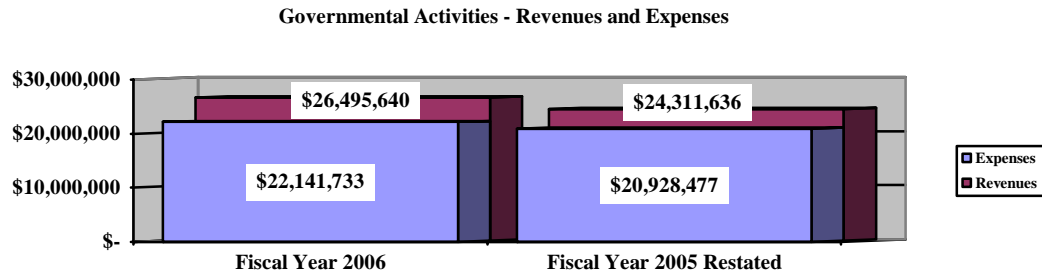
Net assets of the District's governmental activities increased \$4,353,907. Total governmental expenses of \$22,141,733 were offset by program revenues of \$5,335,033 and general revenues of \$20,156,862. Program revenues supported 24.09% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes. This revenue source accounts for 39.78% of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Seneca County in 2000 (the latest information available), the District's tax valuation increased by 29.73% that year.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

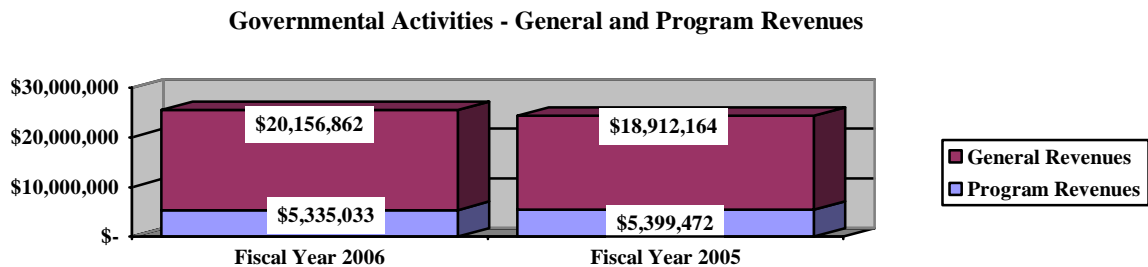
	Governmental Activities			
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 7,581,272	\$ 6,355,691	\$ 7,478,463	\$ 6,349,171
Special	2,549,337	1,215,682	2,487,326	1,838,967
Vocational	144,723	60,560	127,543	127,543
Adult/continuing education	67,142	19,374		
Other	1,758,314	1,709,318	1,416,060	1,365,541
Support services:				
Pupil	897,106	726,008	838,524	698,429
Instructional staff	1,708,845	989,841	1,224,469	(430,280)
Board of education	31,952	31,952	23,056	23,056
Administration	1,699,183	1,615,544	1,568,633	1,471,406
Fiscal	510,486	505,499	480,422	471,057
Business	219,764	219,764	274,530	274,530
Operations and maintenance	1,882,798	1,848,462	1,946,801	1,930,107
Pupil transportation	671,879	598,971	610,137	533,981
Central	137,017	113,706	123,654	59,216
Food service operations	1,087,718	21,611	990,519	13,088
Operations of non-instructional services	78,008	61,374	146,956	21,796
Extracurricular activities	392,312	289,195	422,981	318,950
Intergovernmental pass-through	277,189	(22,540)	350,815	44,859
Interest and fiscal charges	446,688	446,688	417,588	417,588
Total	\$ 22,141,733	\$ 16,806,700	\$ 20,928,477	\$ 15,529,005

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 77.36% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.91%. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$9,213,429, which is higher than last year's total of \$3,597,793. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase	Percentage Change
General	\$ 6,692,456	\$ 2,537,450	\$ 4,155,006	163.75 %
Other Governmental	2,520,973	1,060,343	1,460,630	137.75 %
Total	\$ 9,213,429	\$ 3,597,793	\$ 5,615,636	156.09 %

General Fund

During fiscal year 2006, the District's general fund balance increased by \$4,155,006, which can be attributed to increased local tax revenue, investment earnings, and sale of bonds during fiscal year 2006. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 9,403,676	\$ 8,081,621	\$ 1,322,055	16.36 %
Tuition	333,391	288,038	45,353	15.75 %
Earnings on investments	312,785	112,313	200,472	178.49 %
Intergovernmental	10,181,901	9,947,061	234,840	2.36 %
Other revenues	<u>154,488</u>	<u>142,627</u>	<u>11,861</u>	8.32 %
Total	<u>\$20,386,241</u>	<u>\$18,571,660</u>	<u>\$ 1,814,581</u>	9.77 %
<u>Expenditures</u>				
Instruction	\$10,120,489	\$ 9,480,100	\$ 640,389	6.76 %
Support services	6,834,663	7,008,374	(173,711)	(2.48) %
Extracurricular activities	284,458	265,032	19,426	7.33 %
Operation of non-instructional services	45,220	25,129	20,091	79.95 %
Debt service	<u>184,405</u>	<u>205,720</u>	<u>(21,315)</u>	(10.36) %
Total	<u>\$17,469,235</u>	<u>\$16,984,355</u>	<u>\$ 484,880</u>	2.85 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$21,986,777 were \$182,750 lower than the original budgeted revenues estimate of \$22,169,527. Actual revenues and other financing sources of \$22,095,247 were \$108,470 higher than the final budgeted amounts.

General fund actual expenditures plus other financing sources of \$19,300,065 were \$903,641 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$20,203,706 due to good planning and a tight control of overall expenditures. The original appropriations were \$19,263,752 which was \$939,954 less than the final appropriations.

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets as described in Note 3.B. At the end of fiscal year 2006, the District had \$10,476,041 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to restated 2005:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	Restated 2005
Land	\$ 264,497	\$ 313,062
Land improvements	187,891	247,699
Buildings and improvements	9,380,097	9,502,784
Furniture and equipment	232,284	273,648
Vehicles	411,272	417,791
Total	\$ 10,476,041	\$ 10,754,984

Total additions to capital assets for 2006 were \$479,473 and depreciation expense was \$684,162.

See Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2006 the District had \$7,330,217 in general obligation bonds outstanding and \$57,078 in loans outstanding. The bond issues are comprised of current interest bonds and capital appreciation bonds. Of this total, \$663,539 is due within one year and \$6,723,756 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
<u>General obligation bonds:</u>		
Middle school refinancing bonds	\$ 6,092,217	\$ 6,520,890
QZAB Energy conservation bonds	1,238,000	
<u>Loans:</u>		
H.B. 264 loan	57,078	85,617
Energy conservation loan	-	49,666
Total	\$ 7,387,295	\$ 6,656,173

At June 30, 2006, the District's overall legal debt margin was \$9,517,544 with an unvoted debt margin of \$180,708.

See Note 11 to the basic financial statements for detail on the District's debt administration.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Current Financial Related Activities

Overall, the District remains financially viable although there are several challenges that lie ahead. The first challenge is the loss of state foundation revenues due to charge-offs for post secondary option and children attending neighboring schools through open enrollment. Fostoria City School District is currently in the third year of District Improvement. If our district is unable to reach Adequate Yearly Progress (AYP) there is the potential for funding impact with our federal funds and also increased costs for mandatory bussing of students to neighboring districts.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The District does not anticipate growth in state revenue, as in the ten years prior to the DeRolph decision, no state revenue growth was realized. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback; homestead and personal property tax. Now with HB 66 the decision to totally eliminate all Tangible Personal Property Taxes is a significant change in state policy. This represents approximately 30% of our local revenue, the State is reimbursing schools until 2011 but this will be a challenge for our community to come up with a way to replace this revenue source.

The public schools in Ohio also face the challenges of meeting many unfunded mandates by both the state and federal government. Examples would be Educational Management Information System (state) and No Child Left Behind (federal) compliance.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Department, Fostoria City School District, Administration Building, 500 Parkway Drive, Fostoria, Ohio 44830-1513.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

		<u>Governmental Activities</u>
Assets:		
Equity in pooled cash and cash equivalents. . .	\$	10,467,675
Receivables:		
Taxes		11,160,188
Accounts		6,649
Intergovernmental		292,826
Accrued interest		34,670
Prepayments		17,336
Materials and supplies inventory		41,241
Capital assets:		
Land		264,497
Depreciable capital assets, net		10,211,544
Capital assets, net.		<u>10,476,041</u>
Total assets.		<u>32,496,626</u>
Liabilities:		
Accounts payable.		344,207
Accrued wages and benefits		1,390,688
Intergovernmental payable		59,720
Deferred revenue		9,501,479
Accrued interest payable		22,276
Pension obligation payable		403,200
Long-term liabilities:		
Due within one year.		836,388
Due within more than one year		8,077,660
Total liabilities		<u>20,635,618</u>
Net Assets:		
Invested in capital assets, net of related debt.		3,546,458
Restricted for:		
Capital projects		1,439,830
Debt service.		634,546
State funded programs		179,127
Federally funded programs		199,004
Unrestricted.		<u>5,862,043</u>
Total net assets	\$	<u><u>11,861,008</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 7,581,272	\$ 382,565	\$ 843,016	\$ (6,355,691)	
Special	2,549,337		1,333,655	(1,215,682)	
Vocational	144,723		76,490	7,673 (60,560)	
Adult/continuing education	67,142		47,768	(19,374)	
Other	1,758,314		48,996	(1,709,318)	
Support services:					
Pupil.	897,106		171,098	(726,008)	
Instructional staff	1,708,845		719,004	(989,841)	
Board of education	31,952			(31,952)	
Administration.	1,699,183	55,881	27,758	(1,615,544)	
Fiscal.	510,486		4,987	(505,499)	
Business.	219,764			(219,764)	
Operations and maintenance	1,882,798	20,359	13,977	(1,848,462)	
Pupil transportation	671,879		65,872	7,036 (598,971)	
Central	137,017		23,311	(113,706)	
Operation of non-instructional services:					
Food service operations	1,087,718	336,655	729,452	(21,611)	
Other non-instructional services	78,008		16,634	(61,374)	
Extracurricular activities.	392,312	103,117		(289,195)	
Intergovernmental pass-through	277,189		299,729	22,540	
Interest and fiscal charges	446,688			(446,688)	
Total governmental activities	<u>\$ 22,141,733</u>	<u>\$ 898,577</u>	<u>\$ 4,421,747</u>	<u>\$ 14,709</u>	<u>(16,806,700)</u>
General Revenues:					
Property taxes levied for:					
General purposes				9,537,262	
Debt service.				717,873	
Capital projects				284,245	
Grants and entitlements not restricted to specific programs.				9,219,092	
Investment earnings				349,630	
Miscellaneous				48,760	
Total general revenues				<u>20,156,862</u>	
Special Item:					
Gain on sale of assets.				1,003,745	
Total general revenues and special item.				21,160,607	
Change in net assets				4,353,907	
Net assets at beginning of year (restated)				<u>7,507,101</u>	
Net assets at end of year				<u>\$ 11,861,008</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,247,285	\$ 3,061,809	\$ 10,309,094
Receivables:			
Taxes	10,054,865	1,105,323	11,160,188
Accounts	6,649		6,649
Intergovernmental		292,826	292,826
Accrued interest	34,670		34,670
Interfund loans	439,047		439,047
Prepayments	17,336		17,336
Materials and supplies inventory	30,735	10,506	41,241
Restricted assets:			
Equity in pooled cash and cash equivalents	158,581		158,581
Total assets	\$ 17,989,168	\$ 4,470,464	\$ 22,459,632
Liabilities:			
Accounts payable	\$ 138,700	\$ 205,507	\$ 344,207
Accrued wages and benefits	1,189,361	201,327	1,390,688
Compensated absences payable	67,939		67,939
Pension obligation payable.	357,514	45,686	403,200
Intergovernmental payable.	51,486	8,234	59,720
Interfund loan payable		439,047	439,047
Deferred revenue.	9,491,712	1,049,690	10,541,402
Total liabilities	11,296,712	1,949,491	13,246,203
Fund Balances:			
Reserved for encumbrances	398,309	425,770	824,079
Reserved for materials and supplies inventory.	30,735	10,506	41,241
Reserved for prepayments	17,336		17,336
Reserved for property tax unavailable for appropriation	577,585	65,936	643,521
Reserved for budget stabilization.	89,109		89,109
Reserved for textbooks	69,472		69,472
Undesignated, reported in:			
General fund	5,509,910		5,509,910
Special revenue funds.		167,879	167,879
Debt service fund		535,217	535,217
Capital projects funds.		1,315,665	1,315,665
Total fund balances	6,692,456	2,520,973	9,213,429
Total liabilities and fund balances	\$ 17,989,168	\$ 4,470,464	\$ 22,459,632

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 9,213,429
<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.		10,476,041
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 1,015,188	
Intergovernmental revenue	10,303	
Accrued interest	<u>14,432</u>	
Total		1,039,923
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(22,276)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,122,814)	
General obligation bonds payable	(7,330,217)	
Energy conservation loans payable	(57,078)	
Capital lease obligation payable	<u>(336,000)</u>	
Total		<u>(8,846,109)</u>
Net assets of governmental activities		<u><u>\$11,861,008</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 9,403,676	\$ 978,998	\$ 10,382,674
Tuition	333,391		333,391
Charges for services		336,655	336,655
Earnings on investments	312,785	32,893	345,678
Extracurricular	1,058	128,644	129,702
Classroom materials and fees	49,174		49,174
Other local revenues	68,466	32,722	101,188
Other revenue	35,790		35,790
Intergovernmental - State	10,109,308	1,295,221	11,404,529
Intergovernmental - Federal	72,593	2,528,030	2,600,623
Total revenue	<u>20,386,241</u>	<u>5,333,163</u>	<u>25,719,404</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,455,455	729,193	7,184,648
Special	1,884,197	626,310	2,510,507
Vocational	133,369	7,673	141,042
Adult/continuing education	8,926	58,216	67,142
Other	1,638,542	119,772	1,758,314
Support services:			
Pupil	788,790	112,997	901,787
Instructional staff	1,044,335	597,323	1,641,658
Board of education	25,443	6,509	31,952
Administration	1,575,189	87,158	1,662,347
Fiscal	486,259	20,531	506,790
Business	219,764		219,764
Operations and maintenance	2,004,364	42,272	2,046,636
Pupil transportation	582,257	15,216	597,473
Central	108,262	23,051	131,313
Operation of non-instructional services:			
Food service operations		1,031,167	1,031,167
Other non-instructional services	45,220	28,466	73,686
Extracurricular activities	284,458	92,665	377,123
Intergovernmental pass-through		277,189	277,189
Facilities acquisition and construction		247,959	247,959
Debt service:			
Principal retirement	138,205	600,000	738,205
Interest and fiscal charges	46,200	226,865	273,065
Total expenditures	<u>17,469,235</u>	<u>4,950,532</u>	<u>22,419,767</u>
Excess of revenues over expenditures	<u>2,917,006</u>	<u>382,631</u>	<u>3,299,637</u>
Other financing sources:			
Sale of capital assets		1,077,999	1,077,999
Sale of bonds	1,238,000		1,238,000
Total other financing sources	<u>1,238,000</u>	<u>1,077,999</u>	<u>2,315,999</u>
Net change in fund balances	4,155,006	1,460,630	5,615,636
Fund balances at beginning of year	<u>2,537,450</u>	<u>1,060,343</u>	<u>3,597,793</u>
Fund balances at end of year	<u>\$ 6,692,456</u>	<u>\$ 2,520,973</u>	<u>\$ 9,213,429</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds **\$ 5,615,636**

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

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

Capital asset additions	\$ 479,473	
Current year depreciation	<u>(684,162)</u>	
Total		(204,689)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (74,254)

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

Taxes	156,706	
Intergovernmental revenue	(388,167)	
Accrued interest	<u>3,952</u>	
Total		(227,509)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 738,205

Proceeds of bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (1,238,000)

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

Accrued interest	(2,296)	
Accreted interest on capital appreciation bonds	<u>(171,327)</u>	
Total		(173,623)

Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (81,859)

Change in net assets of governmental activities **\$ 4,353,907**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 9,487,475	\$ 9,409,267	\$ 9,381,902	\$ (27,365)
Tuition.	317,193	314,578	333,391	18,813
Earnings on investments.	343,834	341,000	329,589	(11,411)
Extracurricular.			1,058	1,058
Classroom materials and fees	46,544	46,160	48,156	1,996
Other local revenues.	71,854	71,262	63,596	(7,666)
Other revenues	12,100	12,000	35,790	23,790
Intergovernmental - State.	10,081,615	9,998,510	10,120,508	121,998
Intergovernmental - Federal	80,665	80,000	73,485	(6,515)
Total revenue	<u>20,441,280</u>	<u>20,272,777</u>	<u>20,387,475</u>	<u>114,698</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,905,197	7,242,129	6,545,246	696,883
Special.	1,915,190	2,008,640	1,920,844	87,796
Vocational.	148,952	156,220	133,287	22,933
Adult/continuing education	7,375	7,735	8,335	(600)
Other.	1,370,829	1,437,717	1,660,521	(222,804)
Support services:				
Pupil.	879,235	922,136	874,054	48,082
Instructional staff	974,923	1,022,493	1,025,882	(3,389)
Board of education	24,145	25,323	23,679	1,644
Administration.	1,595,711	1,673,572	1,681,478	(7,906)
Fiscal	508,588	533,404	514,245	19,159
Business	228,461	239,609	230,010	9,599
Operations and maintenance.	2,154,988	2,260,138	2,222,594	37,544
Pupil transportation	659,433	691,609	690,119	1,490
Central.	137,944	144,675	106,165	38,510
Operation of non-instructional services	46,987	49,280	49,401	(121)
Extracurricular activities.	309,663	324,773	275,223	49,550
Debt service:				
Principal retirement	786,805	825,196	853,735	(28,539)
Interest and fiscal charges.	70,118	73,539	46,200	27,339
Total expenditures	<u>18,724,544</u>	<u>19,638,188</u>	<u>18,861,018</u>	<u>777,170</u>
Excess of revenues over expenditures.	<u>1,716,736</u>	<u>634,589</u>	<u>1,526,457</u>	<u>891,868</u>
Other financing sources (uses):				
Refund of prior year expenditure			850	850
Sale of bonds	1,248,290	1,238,000	1,238,000	
Transfers (out)	(30,957)	(32,467)	-	32,467
Advances in.	473,907	470,000	461,827	(8,173)
Advances (out)	(508,251)	(533,051)	(439,047)	94,004
Sale of capital assets.	6,050	6,000	7,095	1,095
Total other financing sources (uses)	<u>1,189,039</u>	<u>1,148,482</u>	<u>1,268,725</u>	<u>120,243</u>
Net change in fund balance	2,905,775	1,783,071	2,795,182	1,012,111
Fund balance at beginning of year	3,702,189	3,702,189	3,702,189	
Prior year encumbrances appropriated	422,250	422,250	422,250	
Fund balance at end of year.	<u>\$ 7,030,214</u>	<u>\$ 5,907,510</u>	<u>\$ 6,919,621</u>	<u>\$ 1,012,111</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 97,624	\$ 58,345
Receivables:		
Accounts	84	84
Total assets.	97,624	\$ 58,429
Liabilities:		
Accounts payable.		\$ 1,750
Due to students		56,679
Total liabilities		\$ 58,429
Net Assets:		
Held in trust for scholarships	97,624	
Total net assets	\$ 97,624	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,953
Gifts and contributions.	500
	4,453
Deductions:	
Scholarships awarded	2,152
	2,301
Net assets at beginning of year	95,323
Net assets at end of year.	\$ 97,624

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 252nd largest in the State of Ohio (among 615 public school districts) in terms of enrollment. It is staffed by 120 non-certificated employees and 170 certificated full-time teaching personnel who provide services to 2,257 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. 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. Refer to Note 13.C. for further information on this group rating plan.

Ohio School Plan

The District participates in the Ohio School Plan (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of thirty-eight public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Vanguard-Sentinel Career Center

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

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representative from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

Northwestern Ohio Special Educational Regional Resource Center

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six school districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consist of one elected representative of each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal officer). Members of the Board serve staggered two-year terms. Financial information is available from the Erie Ottawa Educational Service Center (fiscal agent), at 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The 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. The District does not have any proprietary funds.

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 is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt, principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (c) for grants and other resources whose use is restricted to a particular purpose; and (d) for food service operations.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

The District's basic financial statements consist of government-wide 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at fiscal year end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - During the fiscal year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

The private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and 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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, other than agency funds. The specific timetable for budgetary documents is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts reflect the amounts in the final amended certificate issued during fiscal year 2006.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

4. Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. The appropriation resolution by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. The amounts reported as the original budgeted amounts on the budgetary statements 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 on the statements of budgetary comparisons represent the final appropriation amounts passed by the Board during the year.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to repurchase agreements, the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Under existing Ohio statutes the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$312,785, which includes \$71,388 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those related to government activities. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	10 – 20 years
Buildings and improvements	10 – 50 years
Furniture and equipment	5 – 20 years
Vehicles	5 – 10 years

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with twenty or more years of current service with the District, or age forty-five with fifteen years of service, or age fifty with ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The 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 appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, property tax advance unavailable for appropriation, budget stabilization and textbooks. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

P. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set-aside to create a reserve for budget stabilization and textbooks. See Note 18 for details.

Q. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds is eliminated in the Statement of Activities.

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. During the fiscal year 2006, the District incurred a transaction that would be classified as a special item. The special item relates to the sale of capital assets. The gain related to the sale is reflected as a special item on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated due to omissions in the previous year. The adjustment for capital assets had the following effect on net assets as previously reported:

	Governmental Activities
Net assets, July 1, 2005	\$ 6,364,468
Adjustment for capital assets	1,142,633
Restated net assets, July 1, 2005	\$ 7,507,101

C. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

Nonmajor Funds	Deficit
Early Childhood Grant	\$ 294
DPIA	50
Preschool	6,483
Miscellaneous Federal Grants	72,171

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$4,464,012. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$4,677,019 of the District's bank balance of \$4,853,777 was exposed to custodial risk as discussed below, while \$176,758 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Repurchase Agreement	\$ 176,000	\$ 176,000				
STAR Ohio	2,266,543	2,266,543				
FHLMC	497,589	248,672	\$ 248,917			
FHLB	2,229,029	247,657		\$ 951,183		\$ 1,030,189
FNMA	990,471		493,206	248,515	\$ 248,750	
	<u>\$ 6,159,632</u>	<u>\$ 2,938,872</u>	<u>\$ 742,123</u>	<u>\$ 1,199,698</u>	<u>\$ 248,750</u>	<u>\$ 1,030,189</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

The weighted average maturity of investments is .81 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreements as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 176,000	2.85
STAR Ohio	2,266,543	36.80
FHLMC	497,589	8.08
FHLB	2,229,029	36.19
FNMA	990,471	16.08
	<u>\$ 6,159,632</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 4,464,012
Investments	6,159,632
Total	<u>\$ 10,623,644</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 10,467,675
Private-purpose trust funds	97,624
Agency funds	58,345
Total	<u>\$ 10,623,644</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 439,047

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. These interfund loans between governmental funds will be eliminated on the government-wide statements.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 year 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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 District prior to June 30.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The Seneca, Hancock and Wood County Treasurers collect property tax on behalf of the District and periodically advance, to the District, its portion of the taxes collected. Second-half property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is 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, 2006 was \$577,585 in the general fund, \$48,865 in the bond retirement fund, and \$17,071 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$555,811 in the general fund, \$43,800 in the bond retirement fund, and \$16,590 in the permanent improvement 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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 117,090,990	54.80	\$ 128,241,760	59.53
Commercial/Industrial real estate	43,126,350	20.10	46,243,180	21.47
Public Utility Personal	8,918,070	4.20	8,600,070	3.99
Tangible Personal Property	<u>44,758,777</u>	<u>20.90</u>	<u>32,343,671</u>	<u>15.01</u>
Total	<u>\$ 213,894,187</u>	<u>100.00</u>	<u>\$ 215,428,681</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 60.18		\$ 55.43	
Debt Service	3.40		3.40	
Permanent Improvement	1.73		1.73	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 11,160,188
Accounts	6,649
Accrued interest	34,670
Intergovernmental	<u>292,826</u>
Total	<u>\$ 11,494,333</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated due to omissions in the previous year (See Note 3.B. for detail).

	Balance <u>June 30, 2005</u>	<u>Adjustments</u>	Restated Balance <u>June 30, 2005</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 313,062	\$	\$ 313,062
Total capital assets, not being depreciated	<u>313,062</u>	<u></u>	<u>313,062</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	1,370,917		1,370,917
Buildings and improvements	19,332,260	1,162,000	20,494,260
Furniture and equipment	1,381,025		1,381,025
Vehicles	1,105,227		1,105,227
Total capital assets, being depreciated	<u>23,189,429</u>	<u>1,162,000</u>	<u>24,351,429</u>
Less: accumulated depreciation	<u>(13,890,140)</u>	<u>(19,367)</u>	<u>(13,909,507)</u>
Governmental activities capital assets, net	<u>\$ 9,612,351</u>	<u>\$ 1,142,633</u>	<u>\$ 10,754,984</u>

- B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2006</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 313,062		\$ (48,565)	\$ 264,497
Total capital assets, not being depreciated	<u>313,062</u>		<u>(48,565)</u>	<u>264,497</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,370,917		(90,000)	1,280,917
Buildings and improvements	20,494,260	\$ 360,435	(484,674)	20,370,021
Furniture and equipment	1,381,025	50,878		1,431,903
Vehicles	1,105,227	68,160	(99,393)	1,073,994
Total capital assets, being depreciated	<u>24,351,429</u>	<u>479,473</u>	<u>(674,067)</u>	<u>24,156,835</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,123,218)	(44,058)	74,250	(1,093,026)
Buildings and improvements	(10,991,476)	(483,122)	484,674	(10,989,924)
Furniture and equipment	(1,107,377)	(92,242)		(1,199,619)
Vehicles	(687,436)	(64,740)	89,454	(662,722)
Total accumulated depreciation	<u>(13,909,507)</u>	<u>(684,162)</u>	<u>648,378</u>	<u>(13,945,291)</u>
Governmental activities capital assets, net	<u>\$ 10,754,984</u>	<u>\$ (204,689)</u>	<u>\$ (74,254)</u>	<u>\$ 10,476,041</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 426,528
Special	21,536
Vocational	3,681
<u>Support Services:</u>	
Pupil	4,663
Instructional staff	31,180
Administration	25,542
Fiscal	1,624
Operations and maintenance	33,804
Pupil transportation	65,854
Central	5,043
Extracurricular activities	49,518
Food service operations	15,189
Total depreciation expense	<u>\$ 684,162</u>

NOTE 9 - CAPITAL LEASES

In a prior year, the District entered into a lease for software equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Assets consisting of software equipment under capital lease have not been capitalized in the statement of net assets because the software equipment individually is less than the District's capitalization threshold of \$5,000. A liability was recorded in the Statement of Net Assets. Principal payments in fiscal year 2006 totaled \$60,000 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year Ending <u>June 30, 2006</u>	<u>Amount</u>
2007	\$ 75,138
2008	74,713
2009	75,211
2010	75,591
2011	<u>75,854</u>
Total	376,507
Less: amount representing interest	<u>(40,507)</u>
Present value of minimum lease payments	<u>\$ 336,000</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for teachers, certified employees and administrators and 240 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified, 58 days for teachers and certified employees and up to a maximum 60 days for administrators.

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2006</u>	<u>Amounts Due in One Year</u>
Middle school refinancing bonds	3.20 - 4.70%	\$ 6,520,890	\$ 171,327	\$ (600,000)	\$ 6,092,217	\$ 635,000
QZAB	0.50%		1,238,000		1,238,000	
Total bonds payable		<u>6,520,890</u>	<u>1,409,327</u>	<u>(600,000)</u>	<u>7,330,217</u>	<u>635,000</u>
HB 264 lighting loan	4.80%	85,617		(28,539)	57,078	28,539
Energy conservation loan	5.50%	49,666		(49,666)		
Total loans payable		<u>135,283</u>		<u>(78,205)</u>	<u>57,078</u>	<u>28,539</u>
Capital leases		396,000		(60,000)	336,000	62,000
Compensated absences payable		<u>1,088,619</u>	<u>191,664</u>	<u>(89,530)</u>	<u>1,190,753</u>	<u>110,849</u>
Total other long-term obligations		<u>1,484,619</u>	<u>191,664</u>	<u>(149,530)</u>	<u>1,526,753</u>	<u>172,849</u>
Total		<u>\$ 8,140,792</u>	<u>\$ 1,600,991</u>	<u>\$ (827,735)</u>	<u>\$ 8,914,048</u>	<u>\$ 836,388</u>

B. On January 1, 1999, the District issued middle school refinancing general obligation bonds. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the Statement of Net Assets. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$2,980,000. The interest rates on the current interest bonds range from 3.20% to 4.70%. The capital appreciation bonds mature on December 1, 2010 (effective interest 16.57%), December 1, 2011 (effective interest 16.52%), December 1, 2012 (effective interest 16.54%) and December 1, 2013 (effective interest 16.51%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2006 was \$413,505. A total of \$793,712 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2006.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2016.

The following is a schedule of activity for fiscal 2006 on the middle school refinancing general obligation bonds:

	Balance at June 30, 2005	Additions	Reductions	Balance at June 30, 2006
Current interest bonds	\$ 5,485,000		\$ (600,000)	\$ 4,885,000
Capital appreciation bonds	1,035,890	\$ 171,327	_____	1,207,217
Total G.O. bonds	\$ 6,520,890	\$ 171,327	\$ (600,000)	\$ 6,092,217

The following is a summary of the future debt service requirements to maturity for the middle school refinancing general obligation bonds:

Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 635,000	\$ 202,007	\$ 837,007		\$	
2008	660,000	175,618	835,618			
2209	685,000	147,703	832,703			
2010	715,000	118,124	833,124			
2011		102,930	102,930	\$ 745,000		\$ 745,000
2012 - 2016	1,505,000	444,739	1,949,739	2,235,000		2,235,000
2017	685,000	16,098	701,098	_____	_____	_____
Total	\$ 4,885,000	\$ 1,207,219	\$ 6,092,219	\$ 2,980,000	\$ _____	\$ 2,980,000

- C. On August 21, 1998, the District obtained a loan in the amount of \$285,394 for the purpose of lighting for the District. The loan was issued for a ten-year period with final maturity during fiscal year 2008. The loan will be retired from the general fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

On May 15, 1996, the District issued \$806,995 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code §133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2006. The notes will be retired from the general fund.

The following is a summary of the District's future annual debt service requirements to maturity for the loans:

Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 28,539	\$ 2,740	\$ 31,279
2008	<u>28,539</u>	<u>1,370</u>	<u>29,909</u>
Total	<u>\$ 57,078</u>	<u>\$ 4,110</u>	<u>\$ 61,188</u>

- D. During fiscal year 2006, the District issued \$1,238,000 in Energy Conservation Facility Bonds, Qualified Zone Academy Bonds (QZAB). The QZAB Series 2005 bonds mature September 23, 2015. The District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on September 23, in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date) except the final principal payment date shall be the maturity date:

<u>September 23 of year</u>	<u>QZAB Series 2005</u>
2006	\$ 110,423
2007	110,423
2008	110,423
2009	110,423
2010	110,423
2011	110,423
2012	110,423
2013	110,423
2014	<u>110,423</u>
	<u>\$ 993,807</u>

The QZAB Series 2005 bonds required stated annual interest payments. The District was not required to make a sinking fund deposit in fiscal year 2006. The resources, being accumulated through the sinking fund, will be reported in the debt service fund. On the statement of net assets, the resources accumulated in the sinking fund will be reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term. The required sinking fund deposits and accumulated interest are expected to be sufficient to retire the QZAB Series 2005 bonds upon maturity.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$9,517,544 (including available funds of \$584,082) and an unvoted debt margin of \$180,708.

NOTE 12 - NOTES PAYABLE

In fiscal year 2005, the District issued energy conservation notes for \$715,530. These notes are a general obligation of the District, for which the full faith and credit is pledged for repayment. These notes were retired during fiscal year 2006.

The following is a description of the notes payable activity during fiscal year 2006:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/05</u>	<u>Retired in 2006</u>	<u>Balance 06/30/06</u>
Energy Conservation Notes	3.50%	06/30/05	6/30/06	\$ 715,530	\$ (715,530)	\$ -
Total				<u>\$ 715,530</u>	<u>\$ (715,530)</u>	<u>\$ -</u>

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The 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 2006, the District contracted for the following insurance coverage:

Coverage provided by Ohio School Plan	
General Liability	
General Aggregate	\$3,000,000
Employee Benefit Liability	
Each Offence Limit	1,000,000
Aggregate	3,000,000
Employers' Liability and Stop Gap	1,000,000
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Aggregate	3,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Aggregate	3,000,000

**FOSTORIA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - RISK MANAGEMENT – (Continued)

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

For fiscal year 2006, the District participated in the Ohio School Plan (the “Plan”), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees through Lafayette Life in the amount of \$25,000. All eligible part-time contracted employees are covered in the amount of \$12,500.

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. The medical plan is administered by Medical Mutual Insurance Company. The total monthly premium for medical is \$441.12 for single coverage and \$963.41 for family coverage. The District’s portion of the monthly premium is \$397.00 for single coverage and \$867.07 for family coverage, which is paid out of the same fund that pays the salary for the employees. The District’s amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$44.11 for single coverage and \$96.34 for family coverage, which is withheld from their biweekly payroll.

Effective January 1, 2006, the Board had another medical plan referred to as the “Core Plan” available for employees to choose for a slightly lower premium. The Core Plan allows for a \$200 single and \$400 family deductible in network and a \$400 single and \$800 family out of network deductible. This medical plan was also carried by Medical Mutual Insurance Company. The total monthly premium for medical is \$402.42 for single coverage and \$878.88 for family coverage. The District’s portion of the monthly premium is \$382.30 for single coverage and \$834.94 for family coverage, which is paid for out of the same fund that pays the salary of the employee. The employee portion for the Core Plan is \$20.12 for single coverage and \$43.94 for family coverage, which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully-insured basis through Core Source. The total monthly premium is \$55.96 for single and \$55.96 for family coverage. This premium includes the employee portion, which is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised, except through negotiated agreement.

The above employee portions of premiums for medical and dental insurance are for full-time employees. Part-time employees may pay pro-rated premiums for coverage.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - RISK MANAGEMENT – (Continued)

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.).

The intent of the GRP is to achieve the benefit of a reduced premium for the 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 than either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniserve provides administrative, cost control and actuarial services to the GRP.

NOTE 14 - PENSION PLAN

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$249,042, \$241,858, and \$141,646, respectively; 47.44% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$130,905 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - PENSION PLAN – (Continued)

B. State Teachers Retirement System

The 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 or by visiting the STRS' website at www.strs.org.

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,089,265, \$1,058,402, and \$1,049,279, respectively; 84.44% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$169,513 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$1,826 made by the District and \$8,394 made by plan members.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - PENSION PLAN – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The 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.

All STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$83,790 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$115,828 to fund health care benefits, including the surcharge.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,000. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 2,795,182
Net adjustment for revenue accruals	(1,234)
Net adjustment for expenditure accruals	861,983
Net adjustment for other sources/uses	(30,725)
Adjustment for encumbrances	<u>529,800</u>
GAAP basis	<u>\$ 4,155,006</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not involved in litigation as either plaintiff or defendant.

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ 41,458		\$ 89,109
Current year set-aside requirement	319,263	\$ 319,263	
Current year offsets		(1,077,999)	
Qualifying disbursements	<u>(291,249)</u>	<u>(279,113)</u>	
Total	<u>\$ 69,472</u>	<u>\$ (1,037,849)</u>	<u>\$ 89,109</u>
Cash balance carried forward to FY 2007	<u>\$ 69,472</u>	<u>\$ _____</u>	<u>\$ 89,109</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbook and capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for budget stabilization	\$ 89,109
Amount restricted for textbooks	<u>69,472</u>
Total restricted assets	<u>\$158,581</u>

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**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Summer Food Service Program for Children	10.559	23PU-2005 24PU-2005
Total Summer Food Service Program for Children		
School Breakfast Program	10.553	05PU-2005 05PU-2006
Total School Breakfast Program		
National School Lunch Program	10.555	LLP1-2005 LLP1-2006 LLP4-2005 LLP4-2006
Total - National School Lunch Program		
Total Nutrition Cluster		
Food Donation	10.550	
Total U.S. Department of Agriculture		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
Adult Education - State Grant Program	84.002	ABS1-2005 ABS1-2006
Total - Adult Education - State Grant Program		
Title I Grants to Local Educational Agencies	84.010	C1S1-2005 C1S1-2006
Total - Title I Grants to Local Educational Agencies		
<u>Special Education Cluster:</u>		
Special Education - Grants to States	84.027	6BSF-2005 6BSF-2006
Total - Special Education Grants to States		
Special Education - Preschool Grants	84.173	PGS1-2005 PGS1-2006
Total - Special Education Preschool Grants		
Total Special Education Cluster		
Safe and Drug Free Schools and Communities - State Grants	84.186	DRS1-2005 DRS1-2006
Total - Safe and Drug Free Schools and Communities - State Grants		

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 41,017		\$ 41,017	
4,238		4,238	
<u>45,255</u>		<u>45,255</u>	
14,285		14,285	
<u>79,272</u>		<u>79,272</u>	
<u>93,557</u>		<u>93,557</u>	
1,397		1,397	
13,150		13,150	
59,920		59,920	
<u>290,246</u>		<u>290,246</u>	
<u>364,713</u>		<u>364,713</u>	
503,525		503,525	
	\$ 107,650		\$ 107,650
503,525	107,650	503,525	107,650
21,626		7,303	
<u>83,199</u>		<u>69,413</u>	
<u>104,825</u>		<u>76,716</u>	
159,827		84,135	
<u>401,350</u>		<u>395,196</u>	
<u>561,177</u>		<u>479,331</u>	
160,439		132,297	
<u>546,112</u>		<u>440,012</u>	
<u>706,551</u>		<u>572,309</u>	
7,259		4,181	
<u>51,973</u>		<u>52,031</u>	
<u>59,232</u>		<u>56,212</u>	
<u>765,783</u>		<u>628,521</u>	
		12,669	
<u>12,796</u>		<u>12,572</u>	
<u>12,796</u>		<u>25,241</u>	

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
Teaching American History Grants	84.215X	2005 2006
Total - Teaching American History Grants		
State Grants for Innovative Programs	84.298	C2S1-2005 C2S1-2006
Total - State Grants for Innovative Programs		
Education Technology State Grants	84.318	TJS1-2005 TJS1-2006
Total - Education Technology State Grants		
Comprehensive School Reform Demonstration	84.332	RFS3-2004
English Language Acquisition Grants	84.365	T3S1-2006
Improving Teacher Quality State Grants	84.367	TRS1-2005 TRS1-2006
Total - Improving Teacher Quality State Grants		
Total U.S. Department of Education		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>		
State Children's Insurance Program (CHIP)	93.767	
Medical Assistance Program (Medicaid: Title XIX)	93.778	
<i>Passed Through Seneca County Department of Job and Family Services</i>		
Temporary Assistance for Needy Families	93.558	
Total U. S. Department of Health and Human Services		
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
<i>Passed Through Ohio Department of Education</i>		
Learn and Serve America School Community Based Program	94.004	SVS1-2005 SVS1-2006
Total Corporation for National and Community Service		
Total Federal Awards Expenditures		

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
121,745		83,173	
31,968		50,350	
<u>153,713</u>		<u>133,523</u>	
8,349		9,291	
1,782		230	
<u>10,131</u>		<u>9,521</u>	
1,574		4,240	
6,945		7,238	
<u>8,519</u>		<u>11,478</u>	
<u>49,815</u>		<u>32,934</u>	
<u>15,544</u>		<u>15,544</u>	
105,311		27,397	
131,399		125,875	
<u>236,710</u>		<u>153,272</u>	
<u>1,919,013</u>		<u>1,566,081</u>	
6,358		6,358	
<u>67,127</u>		<u>67,127</u>	
46,583		68,288	
<u>120,068</u>		<u>141,773</u>	
3,150		732	
14,300		568	
<u>17,450</u>		<u>1,300</u>	
<u>\$2,560,056</u>	<u>\$107,650</u>	<u>\$2,212,679</u>	<u>\$107,650</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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

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

NOTE C – FOOD DONATION PROGRAM

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 30, 2007. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2006-006 and 2006-007.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-006 and 2006-007 listed above to be material weaknesses. In a separate letter to the District's management dated May 30, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-006. In a separate letter to the District's management dated May 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 30, 2007



Mary Taylor, CPA

Auditor of State

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

Fostoria City School District
Seneca County
500 Parkway Drive
Fostoria, Ohio 44830-1513

To the Board of Education:

Compliance

We have audited the compliance of the Fostoria City School District, Seneca County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2006. 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 Fostoria City School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006. In a separate letter to the District's management dated May 30, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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*.

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, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 30, 2007

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster – CFDA #84.027 Special Education – Grants to States and CFDA #84.173 Special Education – Preschool Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

Finding for Recovery

The 2006 high school yearbook contained ads from various vendors that were not billed by the advisor. As a result, the District is owed \$45 for monies due but not collected.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against Laurie Martishius, High School Yearbook Advisor in the amount of \$45, and against Fostoria Laundry and Side Door Ice Cream in the amount of \$45 and in favor of Fostoria City School District – Seneca County High School Yearbook Fund, in the amount of \$45.

Officials Response:

The Treasurer and High School Principal met with the advisor to review more effective billing and collection procedures.

FINDING NUMBER 2006-002

Finding for Recovery

The 2006 high school yearbook contained ads from various vendors that were not billed by the advisor. As a result, the District is owed \$125 for monies due but not collected. The following vendors provided proof of payment; however the advisor could not provide proof of deposit.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against Laurie Martishius, High School Yearbook Advisor in the amount of \$125, and in favor of Fostoria City School District – Seneca County High School Yearbook Fund, in the amount of \$125.

Name of Vendor	Amount Not Collected
John M. Allen Co	\$45
Nocolorline	\$80
 Total	 <u><u>\$125</u></u>

Officials Response:

The Treasurer and High School Principal met with the advisor to review more effective billing and collection procedures.

FINDING NUMBER 2006-003

Finding for Recovery Repaid Under Audit

The 2006 high school yearbook contained ads from various vendors that were not billed by the advisor. As a result, the District is owed \$1,080 for monies due but not collected.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against Laurie Martishius, High School Yearbook Advisor in the amount of \$1,080, and against the following vendors in the following amounts and in favor of Fostoria City School District – Seneca County High School Yearbook Fund, in the amount of \$1,080. The following vendors have repaid the District for monies due but not collected as follows:

Name of Vendor	Amount Not Collected	Date Repaid	Amount Repaid
Graff Auto Mall	\$45	3/1/2007	\$45
Holman's Garage	\$45	3/1/2007	\$45
Jorie's on Main Salon, LLC	\$45	3/1/2007	\$45
Red's Pizza	\$150	3/1/2007	\$150
Ad-Mar Printing	\$45	4/5/2007	\$45
Alt's Music Center	\$45	4/5/2007	\$45
Bob Evans Restaurant	\$45	4/5/2007	\$45
Dean and Donna's Convenience Store	\$45	4/5/2007	\$45
Fostoria Beverage Center	\$45	3/29/2007	\$45
Fostoria Community Hospital	\$150	3/27/2007	\$150
Mr. B's	\$45	4/11/2007	\$45
St. Catherine's Care Center	\$45	4/5/2007	\$45
The Café	\$45	4/5/2007	\$45
J. B. Tours	\$45	4/11/2007	\$45
Tri County Veterinary Clinic	\$45	4/4/2007	\$45
Whitta Construction	\$150	4/11/2007	\$150
Med Center Pharmacy	\$45	4/11/2007	\$45
Total	\$1,080		\$1,080

Officials Response:

The Treasurer and High School Principal met with the advisor to review more effective billing and collection procedures.

FINDING NUMBER 2006-004

Finding for Recovery Repaid Under Audit

The Board of Education approved a 3% pay raise for the former treasurer effective for the period 8-1-05 thru 7-31-06. Compensation paid to the former treasurer indicated a 3% pay raise effective for the period 1-1-05 thru 12-31-05 and an additional 3% pay raise effective for the period 1-1-06 thru 7-31-06. Consequently, the former treasurer was overpaid in the amount of \$1,148.85.

In accordance with the foregoing facts and pursuant to Ohio Revised Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Jane M. Fruth, former Treasurer, and her bonding company, The Cincinnati Insurance Company, jointly and severally, in the amount of \$1,148.85, and in favor of Fostoria City School District General Fund.

This finding was repaid by Jane Fruth on April 24, 2007, and credited to the District's General Fund.

Officials Response:

The Board President, Superintendent and Treasurer will monitor future board of education agenda items for effective dates.

FINDING NUMBER 2006-005

Noncompliance Citation

Ohio Revised Code § 5705.412 requires the treasurer, superintendent and president of the board of education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year.

During fiscal year 2006, we noted all of the expenditures that required a certificate of adequate revenue as required by Ohio Revised Code § 5705.412 did not maintain this documentation. This included one qualifying contract, six appropriation measures, and two increased salary and wage schedules.

Prior to the completion of the audit the District provided the Auditor of State with properly executed certificates and appropriate supporting documentation.

We recommend the District prepare "412" certificates for all qualifying contracts, annual appropriation measures, or increased salary and wage schedules.

Officials Response:

The Board President, Superintendent and Treasurer will monitor future board of education resolutions on all qualifying contracts, annual appropriation measure, or increase salary and wage schedules.

FINDING NUMBER 2006-006

Noncompliance Citation/ Material Weakness

Ohio Revised Code § 3319.12 states that each board of education shall cause notice to be given annually not later than the first day of July to each teacher who holds a contract valid for the succeeding school year, as to the salary to be paid such teacher during such year. Such salary shall not be lower than the salary paid during the preceding school year unless such reduction is part of a uniform plan affecting the entire district.

Ohio Revised Code § 3319.082 states that each board of education shall cause notice to be given annually not later than the first day of July to each non-teaching school employee who holds a contract valid for the succeeding school year, as to the salary to be paid such school employee during each year. Such salary shall not be lower than the salary paid during the preceding school year unless such reduction is a part of a uniform plan affecting the non-teaching employees of the entire district.

A contract or salary notice could not be provided for 33% of payroll transactions tested. Board approved salary schedules and/or employee contracts were not readily available and on file with the fiscal office payroll staff. Salary increases approved by the Board did not always specify the effective date. These weaknesses resulted in findings for recovery and additional audit time to recalculate gross pay and obtain verification from the Board regarding effective dates of pay raises and expand our testing due to a lack of controls.

To improve controls over the payroll process to assure that employees are paid in amounts authorized by the Board, we recommend the following:

- Documentation to support gross pay calculations be attached to payroll worksheets
- Personnel files contain salary notices and/or employee contracts for each employee with effective dates noted
- Fiscal office payroll staff maintain Board approved salary schedules/salary notices/employee contracts with effective dates
- All Board resolutions regarding salaries specify effective dates

Officials Response:

The necessary payroll and personnel documents will be maintained in the employee's files.

FINDING NUMBER 2006-007

Material Weakness

Student Activity Funds

Fund raiser "Sales Project Potential Sheets" were not prepared for three of the ten fundraisers reviewed. Five of the ten activity funds reviewed did not contain a budget and the other five were not properly approved. These weaknesses could allow fundraisers to be conducted contrary to the wishes of the Board and reduces controls. To improve controls over student activities, it is recommended that all fund raisers be approved by the Board, each fund raiser and sale have a budget and the "Sales Project Potential Sheets" be completed for all student activity fund raisers and sales. The Treasurer should review the budgets and "Sales Project Potential Sheets" for completeness and accuracy and initial these forms to indicate approval.

**FINDING NUMBER 2006-007
(Continued)**

Per the USAS user manual provided on the AOS website, dues and fees for student activities should be classified in the 1630 object code. Additionally, revenues of sales resulting from student activity enterprises (fundraisers) should be classified in the 1620 object code. During FY06, dues, fees and fundraisers totaling \$4,170 in the Student Activity 200 Funds were improperly posted to an 1800 function rather than a 1600 function. Failure to record revenues to the proper function allows the financial statements to be misclassified. To improve controls over student activities and the reporting of extracurricular activity revenues, it is recommended that each revenue type be classified as outlined in the USAS manual.

The District sells tickets for the High School Musical. No documentation was maintained to support the tickets available for sale and ticket prices. A reconciliation was not performed of tickets sold to amounts deposited. These weaknesses limit controls and accountability over ticket sales and increase the possibility of funds being misappropriated and errors or irregularities going undetected. A ticket reconciliation form should be completed that lists the amount of tickets available for sale, ticket numbers, price per ticket, number of tickets sold, tickets left on hand and the total amount collected. The unused tickets should be turned into the Treasurer's office at the end of the event.

The High School Musical received monies for ads published in the program and donations from various sources. During FY06, revenues on the cash proof sheet were not clearly identified by the source of revenue. This made it difficult to identify the types of revenues received. We recommend that a clear distinction be made on the cash proof sheet to identify the money received as a donation or an ad.

Several of the ads printed in the 2006 High School yearbook were not paid for prior to publication. This resulted in findings for recovery being issued in the amount of \$1,250 for monies due but not collected. We recommend that all revenues for ads are collected before the ad is printed. We further recommend that if no payment is received, the ad not be printed.

Officials Response:

The District Personnel and Audit and Finance Committees will review material weakness and future monitoring of student activity funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Mary Taylor, CPA
Auditor of State

FOSTORIA CITY SCHOOL DISTRICT

SENECA 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
JULY 3, 2007**