



**Auditor of State  
Betty Montgomery**



**FORT RECOVERY LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Fort Recovery Local School District  
Mercer County  
PO Box 604  
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the accompanying financial statements of Fort Recovery Local School District, Mercer County, Ohio (the School District) as of and for the years ended June 30, 2003 and June 30, 2002. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes, for the fiscal year ended June 30, 2003, have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

As discussed in Note 2, the accompanying financial statements and notes for the fiscal year ended June 30, 2002, have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to file annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Fort Recovery Local School District, as of June 30, 2003 and June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2002, the School District changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003' on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 11, 2003

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|  | <b>Governmental Fund Types</b> |                            |                         |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
|  | <b>General</b>                 | <b>Special<br/>Revenue</b> | <b>Debt<br/>Service</b> | <b>Capital<br/>Projects</b> |   |
| <b>Cash Receipts</b>   |                                |                            |                         |                             |   |
| Taxes  | \$2,118,894                    | \$34,445                   | \$303,990               | \$79,910                    | \$2,537,239                             |
| Tuition  | 114,941                        |                            |                         |                             | 114,941                                 |
| Intergovernmental  | 4,170,408                      | 354,511                    | 21,460                  | 27,618                      | 4,573,997                               |
| Interest   | 54,909                         |                            |                         |                             | 54,909                                  |
| Extracurricular Activities   |                                | 200,209                    |                         |                             | 200,209                                 |
| Classroom Materials & Fees   | 33,566                         |                            |                         |                             | 33,566                                  |
| Miscellaneous  | 48,033                         | 60,049                     |                         |                             | 108,082                                 |
| <b>Total Cash Receipts</b>   | <b>6,540,751</b>               | <b>649,214</b>             | <b>325,450</b>          | <b>107,528</b>              | <b>7,622,943</b>                        |
| <b>Cash Disbursements</b>  |                                |                            |                         |                             |   |
| Current:   |                                |                            |                         |                             |   |
| Instruction:   |                                |                            |                         |                             |   |
| Regular  | 2,868,140                      | 111,783                    |                         | 14,222                      | 2,994,145                               |
| Special  | 582,533                        | 249,392                    |                         |                             | 831,925                                 |
| Vocational   | 153,769                        | 204                        |                         |                             | 153,973                                 |
| Other  | 90,910                         |                            |                         |                             | 90,910                                  |
| Support Services:  |                                |                            |                         |                             |   |
| Pupils   | 162,237                        | 120,960                    |                         |                             | 283,197                                 |
| Instruction  | 330,731                        | 40,358                     |                         | 13                          | 371,102                                 |
| Board of Education   | 20,052                         |                            |                         | 125                         | 20,177                                  |
| Administration   | 609,191                        | 7,552                      |                         |                             | 616,743                                 |
| Fiscal   | 191,883                        | 827                        | 5,061                   | 3,805                       | 201,576                                 |
| Business   | 8,484                          |                            |                         |                             | 8,484                                   |
| Operation and Maintenance  | 776,865                        | 50,769                     |                         | 54,006                      | 881,640                                 |
| Transportation   | 252,618                        | 2,418                      |                         | 7,332                       | 262,368                                 |
| Central Services   | 107,316                        |                            |                         |                             | 107,316                                 |
| Extracurricular Activities   | 152,774                        | 110,840                    |                         |                             | 263,614                                 |
| Capital Outlay   |                                |                            |                         |                             |   |
| Capital Outlay   |                                | 5,611                      |                         | 150,911                     | 156,522                                 |
| Debt Service: Principal  |                                |                            |                         |                             |   |
| Debt Service: Interest   |                                |                            | 191,476                 |                             | 191,476                                 |
|  |                                |                            | 134,961                 |                             | 134,961                                 |
| <b>Total Cash Disbursements</b>  | <b>6,307,503</b>               | <b>700,714</b>             | <b>331,498</b>          | <b>230,414</b>              | <b>7,570,129</b>                        |
| Cash Receipts Over(Under) Cash Disbursements                                     | 233,248                        | (51,500)                   | (6,048)                 | (122,886)                   | 52,814                                  |
| <b>Other Sources (Uses):</b>   |                                |                            |                         |                             |   |
| Sale of Fixed Assets   | 3,736                          |                            |                         |                             | 3,736                                   |
| Refund of Prior Year Expenditures  | 6,027                          |                            |                         |                             | 6,027                                   |
| Refund of Prior Year Receipts  | (1,845)                        | (1,127)                    |                         |                             | (2,972)                                 |
| Advances In  | 16,000                         |                            |                         |                             | 16,000                                  |
| Advances Out   |                                | (1,000)                    |                         |                             | (1,000)                                 |
| Operating Transfers In   |                                | 77,715                     |                         |                             | 77,715                                  |
| Operating Transfers Out  | (77,715)                       |                            |                         |                             | (77,715)                                |
| <b>Total Other Financing Sources (Uses)</b>                                      | <b>(53,797)</b>                | <b>75,588</b>              |                         |                             | <b>21,791</b>                           |
| Cash Receipts and Other Sources Over(Under)<br>Cash Disbursements and Other Uses | 179,451                        | 24,088                     | (6,048)                 | (122,886)                   | 74,605                                  |
| Fund Cash Balances at Beginning of Year  | 1,622,145                      | 271,150                    | 255,755                 | 144,631                     | 2,293,681                               |
| Fund Cash Balances at End of Year  | <u>\$1,801,596</u>             | <u>\$295,238</u>           | <u>\$249,707</u>        | <u>\$21,745</u>             | <u>\$2,368,286</u>                      |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

|   | <u>Proprietary<br/>Fund Type</u> | <u>Fiduciary<br/>Funds</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|---|----------------------------------|----------------------------|---|
|   | <u>Enterprise</u>                | <u>Agency</u>              |   |
| <b>Operating Receipts</b>   |                                  |                            |   |
| Food Services   | \$255,398                        |                            | \$255,398                               |
| Tuition   | 27,883                           |                            | 27,883                                  |
| Extracurricular Activities  |                                  | \$83,157                   | 83,157                                  |
| Total Operating Receipts  | <u>283,281</u>                   | <u>83,157</u>              | <u>366,438</u>                          |
| <b>Operating Disbursements</b>  |                                  |                            |   |
| Salaries  | 138,407                          | 1,379                      | 139,786                                 |
| Fringe Benefits   | 35,729                           | 252                        | 35,981                                  |
| Purchased Services  | 8,047                            |                            | 8,047                                   |
| Materials and Supplies  | 132,518                          |                            | 132,518                                 |
| Capital Outlay  | 245                              | 911                        | 1,156                                   |
| Other Objects   | 444                              | 105,357                    | 105,801                                 |
| Total Operating Disbursements   | <u>315,390</u>                   | <u>107,899</u>             | <u>423,289</u>                          |
| Operating Income (Loss)   | (32,109)                         | (24,742)                   | (56,851)                                |
| <b>Non-Operating Receipts (Disbursements)</b>   |                                  |                            |   |
| Miscellaneous   |                                  | 18,877                     | 18,877                                  |
| Advances Out  | (15,000)                         |                            | (15,000)                                |
| Federal and State Subsidies   | 46,562                           |                            | 46,562                                  |
| Total Non-Operating Receipts (Disbursements)  | <u>31,562</u>                    | <u>18,877</u>              | <u>50,439</u>                           |
| Deficiency of Receipts and Other Sources<br>Over (Under) Disbursements and Other Uses | (547)                            | (5,865)                    | (6,412)                                 |
| Fund Cash Balances at Beginning of Year   | <u>66,192</u>                    | <u>53,735</u>              | <u>119,927</u>                          |
| <b>Fund Cash Balances at End of Year</b>  | <u><u>\$65,645</u></u>           | <u><u>\$47,870</u></u>     | <u><u>\$113,515</u></u>                 |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| <b>Fund Types/Fund</b>  | <b>Budget</b>      | <b>Actual</b>      | <b>Variance<br/>Favorable/<br/>(Unfavorable)</b> |
|-------------------------|--------------------|--------------------|--|
| <b>Governmental:</b>    |                    |                    |  |
| General Fund            | \$6,258,060        | \$6,550,514        | \$292,454  |
| Special Revenue Funds   | 512,164            | 726,929            | 214,765  |
| Debt Service Funds      | 318,563            | 325,450            | 6,887  |
| Capital Project Funds   | 169,670            | 107,528            | (62,142)   |
| <b>Proprietary:</b>     |                    |                    |  |
| Enterprise Funds        | 302,118            | 329,843            | 27,725   |
| <b>Fiduciary:</b>       |                    |                    |  |
| Agency Funds            | 90,451             | 102,034            | 11,583   |
| Total (Memorandum Only) | <u>\$7,651,026</u> | <u>\$8,142,298</u> | <u>\$491,272</u>                                 |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR FISCAL THE YEAR ENDED JUNE 30, 2003**

| <b>Fund Types/Fund</b>         | <b>Prior Year<br/>Carryover<br/>Appropriations</b> | <b>2003<br/>Appropriations</b> | <b>Total</b>              |
|--------------------------------|--|--------------------------------|---------------------------|
| <b>Governmental:</b>           |  |                                |                           |
| General Fund                   | \$171,724  | \$6,603,321                    | \$6,775,045               |
| Special Revenue Funds          | 38,345   | 718,309                        | 756,654                   |
| Debt Service Funds             | 0  | 335,024                        | 335,024                   |
| Capital Project Funds          | 55,531   | 243,819                        | 299,350                   |
| <b>Proprietary:</b>            |  |                                |                           |
| Enterprise Funds               | 462  | 330,694                        | 331,156                   |
| <b>Fiduciary:</b>              |  |                                |                           |
| Agency Funds                   | 4,354  | 115,705                        | 120,059                   |
| <b>Total (Memorandum Only)</b> | <b><u>\$270,416</u></b>                            | <b><u>\$8,346,872</u></b>      | <b><u>\$8,617,288</u></b> |

*The notes to the financial statements are an integral part of this statement.*

| <u>Actual 2003<br/>Disbursements</u> | <u>Encumbrances<br/>Outstanding<br/>At 6/30/03</u> | <u>Total</u>       | <u>Variance<br/>Favorable/<br/>(Unfavorable)</u> |
|--------------------------------------|--|--------------------|--|
| \$6,387,063                          | \$143,561  | \$6,530,624        | \$244,421  |
| 701,841                              | 34,753   | 736,594            | 20,060   |
| 331,498                              | 86   | 331,584            | 3,440  |
| 230,414                              | 8,553  | 238,967            | 60,383   |
| 315,390                              | 1,731  | 317,121            | 14,035   |
| 107,899                              | 6,206  | 114,105            | 5,954  |
| <u>\$8,074,105</u>                   | <u>\$194,890</u>                                   | <u>\$8,268,995</u> | <u>\$348,293</u>                                 |

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

Fort Recovery Local School District (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 is located in a rural community in Northwest Ohio. It is staffed by 42 non-certificated employees, 65 certificated full-time teaching personnel who provide services to 987 students and other community members.

**A. Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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, 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 organization's governing 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 access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District has no component units.

The District is associated with eight organizations which are defined as jointly governed organizations, related organizations and public entity risk pools. These organizations include Northwest Ohio Area Computer Services Cooperative (NOACSC), Mercer County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resources Center (SERRC), Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program, Mercer Auglaize Employee Benefit Trust, and Fort Recovery Public Library. These organizations are presented in Notes 10, 11, and 12 to the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**B. Fund Accounting**

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**1. Governmental Fund Types**

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

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund** - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**Capital Projects Funds** - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**2. Proprietary Fund Types**

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the District's proprietary fund types:

**Enterprise Funds** - Enterprise funds are used to account for District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**3. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include agency funds.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**C. Budgetary Process**

**1. Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

**2. Estimated Resources**

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources.

The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Interest earnings are allocated as authorized by state statute based upon District policy.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**E. Unpaid Vacation and Sick Leave**

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

**F. Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**G. Total Columns on the Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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. Investments may only be made through specified dealers and institutions. Payments 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.

Protection of the 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.

As of June 30, 2003, the District's \$1,200 in undeposited cash on hand which is included in the fund balance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*".

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

**Deposits** - At fiscal year end, the carrying amount of the District's deposits was \$1,900,731 and the bank balance was \$1,984,001. Of the bank balance, \$271,150 was covered by federal depository insurance and \$1,712,851 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments** - The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. At June 30, 2003, the District's repurchase agreements, which are a Category 3 investment, had a carrying amount of \$579,870 and a fair value of \$597,236.

**4. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District's 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 school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2003, on the value as of December 31, 2002. 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.

The District receives property taxes from Mercer and Darke Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. PROPERTY TAXES**

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

|   | <u>2002 Second-Half</u> |                | <u>2003 First-Half</u> |                |
|---|-------------------------|----------------|------------------------|----------------|
|   | <u>Amount</u>           | <u>Percent</u> | <u>Amount</u>          | <u>Percent</u> |
| Agricultural/Residential<br>And Other Real Estate | \$58,551,220            | 83.75%         | \$60,739,680           | 85.03%         |
| Public Utility                                    | 3,678,930               | 5.26           | 3,345,300              | 4.69           |
| Tangible Personal Property                        | 7,680,833               | 10.99          | 7,345,750              | 10.28          |
| Total Assessed Value                              | <u>\$69,910,983</u>     | <u>100.00%</u> | <u>\$71,430,730</u>    | <u>100.00%</u> |
| Tax Rate per \$1,000 of assessed valuation        | \$33.60                 |                | \$33.20                |                |

**5. INCOME TAXES**

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

**6. RISK MANAGEMENT**

**A. Public Liability**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100 percent insured.

During fiscal year 2003, the District purchased the Ohio School Plan general liability insurance, which carried a \$1 million per occurrence/ \$3 million annual aggregate limit with an additional \$2 million excess liability coverage. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded.

**B. Worker's Compensation**

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the Program), an insurance purchasing pool. The Program is intended to reduce premiums for the participants. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to educational entities that can meet the Program's selection criteria. Each participant must apply annually. The Program provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**C. Health Care Benefits**

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

**7. PENSION PLANS**

**A. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member.

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**7. PENSION PLANS (Continued)**

Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001, was \$387,280, \$270,389, and \$261,592, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$1,264 made by the School District and \$3,891 made by the plan members.

**B. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$75,634, \$49,125, and \$35,354, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

**C. Social Security System**

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

**8. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount was \$29,790.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$71,165 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. LONG-TERM OBLIGATIONS**

The changes in the District's debt during fiscal year 2003 were as follows:

| <b>Debt Obligations</b>          | <b>Outstanding<br/>6/30/02</b> | <b>Additions</b> | <b>Deductions</b> | <b>Outstanding<br/>6/30/03</b> |
|----------------------------------|--------------------------------|------------------|-------------------|--------------------------------|
| 1998 School Improvement Bonds    |                                |                  |                   |                                |
| Serial and Term Bonds 3.75%-4.9% | \$2,805,000                    | \$ -             | \$105,000         | \$2,700,000                    |
| Capital Appreciation Bonds 7.5%  | 318,864                        | 15,643           | 0                 | 334,507                        |
| 2002 Building Loan               |                                |                  |                   |                                |
| Variable Interest                | 306,000                        | -                | 72,000            | 234,000                        |
| Environmental Protection Agency  |                                |                  |                   |                                |
| 1989 Asbestos Abatement Loan     |                                |                  |                   |                                |
| Interest Free                    | 37,257                         | -                | 5,732             | 31,525                         |
| Environmental Protection Agency  |                                |                  |                   |                                |
| 1986 Asbestos Abatement Loan     |                                |                  |                   |                                |
| Interest Free                    | 30,605                         | -                | 8,744             | 21,861                         |
| <b>Total Debt</b>                | <b>\$3,497,726</b>             | <b>\$ 15,643</b> | <b>\$ 191,476</b> | <b>\$3,321,893</b>             |

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

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

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

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

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

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

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

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For fiscal year 2003, \$15,643 was accreted for total bond value of \$334,507.

**2002 Building Loan** - In fiscal year 2002, the School District obtained a loan, in the amount of \$306,000, from the OASBO Expanded Asset Capital Pool. Interest is being paid monthly at a variable rate. Principal will be paid in four annual installments, with final maturity in fiscal year 2006. The loan is being retired from the Bond Retirement debt service fund.

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

The School District's overall debt margin was \$3,643,966 with an unvoted debt margin of \$71,431 at June 30, 2003.

The 2002 building loan has a variable interest rate that is being calculated monthly; therefore, no interest is included in the amortization schedule below.

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

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>General<br/>Obligation<br/>Bonds</u> | <u>2002<br/>Building<br/>Loan</u> | <u>1989 EPA<br/>Asbestos<br/>Loan</u> | <u>1986 EPA<br/>Asbestos<br/>Loan</u> |
|--|---|-----------------------------------|---------------------------------------|---------------------------------------|
| 2004                                   | \$ 238,606                              | \$ 75,000                         | \$ 5,732                              | \$ 8,744                              |
| 2005                                   | 268,033                                 | 78,000                            | 5,732                                 | 8,744                                 |
| 2006                                   | 251,835                                 | 81,000                            | 5,732                                 | 4,373                                 |
| 2007                                   | 255,563                                 |                                   | 5,732                                 |                                       |
| 2008                                   | 249,000                                 |                                   | 5,732                                 |                                       |
| 2009 – 2013                            | 1,246,775                               |                                   | 2,865                                 |                                       |
| 2014 – 2018                            | 1,270,693                               |                                   |                                       |                                       |
| 2019 - 2021                            | 746,573                                 |                                   |                                       |                                       |
|  | <u>\$4,527,078</u>                      | <u>\$234,000</u>                  | <u>\$31,525</u>                       | <u>\$21,861</u>                       |

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

**10. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative**

The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among member school districts, including both public school districts and county boards of education, in Allen, Auglaize, Hancock, Mercer, Paulding, Putnam, and Van Wert counties.

The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each school supports NOACSC based upon a per pupil charge. The Governing Board of NOACSC consists of two representatives from each county and one representative from the fiscal agent. The representatives from each county are elected by a majority vote of all county member schools. Financial information can be obtained from Michael Wildermuth, Director, at 645 South Main St., Lima, Ohio 45805

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**Mercer County Local Professional Development Committee**

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

**West Central Ohio Special Education Regional Resource Center**

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

**West Central Ohio Regional Professional Development Center**

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

**Northwestern Ohio Educational Research Council, Inc.**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**11. INSURANCE PURCHASING POOLS**

**Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program**

The District participates in the Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a twenty-five member Board of directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Program to cover the costs of administering the program and its financial operations.

**Mercer Auglaize Employee Benefit Trust**

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

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

**12. RELATED ORGANIZATIONS**

**Fort Recovery Public Library**

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

**13. GRANTS**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**14. STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

|                              | <u>Textbooks</u>   | <u>Capital Acquisitions</u> |
|------------------------------|--------------------|-----------------------------|
| Set-Aside Cash Balance       |                    |                             |
| As of June 30, 2002          | \$(214,175)        | \$0                         |
| Required Set-Aside           | 139,157            | 139,157                     |
| Current Year Offset          | -                  | (133,977)                   |
| Qualifying Expenditures      | <u>(144,129)</u>   | <u>(5,180)</u>              |
| Cash Balance Carried Forward |                    |                             |
| To Subsequent Year           | <u>\$(219,147)</u> | <u>\$0</u>                  |

The School District had qualifying disbursements during the year that reduced the textbooks set-aside amounts to below zero. Ohio Revised Code Section 3315.17 allows for the extra amount to carry over into future years.

**15. STATE SCHOOL FUNDING DECISION**

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

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

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

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

|  | <b>Governmental Fund Types</b> |                            |                         |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
|  | <b>General</b>                 | <b>Special<br/>Revenue</b> | <b>Debt<br/>Service</b> | <b>Capital<br/>Projects</b> |   |
| <b>Cash Receipts</b>   |                                |                            |                         |                             |   |
| Taxes  | \$1,858,689                    | \$29,485                   | \$248,288               | \$93,157                    | \$2,229,619                             |
| Tuition  | 68,962                         |                            |                         |                             | 68,962                                  |
| Intergovernmental  | 3,989,808                      | 376,280                    | 25,191                  | 105,594                     | 4,496,873                               |
| Interest   | 87,174                         |                            |                         | 3,277                       | 90,451                                  |
| Extracurricular Activities   |                                | 181,814                    |                         |                             | 181,814                                 |
| Classroom Materials & Fees   | 35,930                         |                            |                         |                             | 35,930                                  |
| Miscellaneous  | 32,249                         | 55,455                     |                         |                             | 87,704                                  |
| <b>Total Cash Receipts</b>   | <b>6,072,812</b>               | <b>643,034</b>             | <b>273,479</b>          | <b>202,028</b>              | <b>7,191,353</b>                        |
| <b>Cash Disbursements</b>  |                                |                            |                         |                             |   |
| Current:   |                                |                            |                         |                             |   |
| Instruction:   |                                |                            |                         |                             |   |
| Regular  | 2,671,071                      | 156,753                    |                         | 105,411                     | 2,933,235                               |
| Special  | 538,626                        | 206,511                    |                         |                             | 745,137                                 |
| Vocational   | 151,146                        | 29                         |                         |                             | 151,175                                 |
| Other  | 67,759                         |                            |                         |                             | 67,759                                  |
| Support Services:  |                                |                            |                         |                             |   |
| Pupils   | 164,297                        | 89,415                     |                         |                             | 253,712                                 |
| Instruction  | 327,416                        | 49,883                     |                         | 3,385                       | 380,684                                 |
| Board of Education   | 19,054                         |                            |                         | 265                         | 19,319                                  |
| Administration   | 573,644                        | 8,381                      |                         |                             | 582,025                                 |
| Fiscal   | 189,527                        | 654                        | 4,270                   | 6,680                       | 201,131                                 |
| Business   | 6,819                          |                            |                         |                             | 6,819                                   |
| Operation and Maintenance  | 756,816                        | 39,774                     |                         | 100,578                     | 897,168                                 |
| Transportation   | 207,248                        | 1,246                      |                         |                             | 208,494                                 |
| Central Services   | 87,129                         |                            |                         | 7,001                       | 94,130                                  |
| Extracurricular Activities   | 139,574                        |                            |                         |                             | 139,574                                 |
| Capital Outlay   |                                | 109,288                    |                         | 759,667                     | 868,955                                 |
| Debt Service: Principal  |                                |                            | 114,476                 |                             | 114,476                                 |
| Debt Service: Interest   |                                |                            | 135,685                 |                             | 135,685                                 |
| <b>Total Cash Disbursements</b>  | <b>5,900,126</b>               | <b>661,934</b>             | <b>254,431</b>          | <b>982,987</b>              | <b>7,799,478</b>                        |
| Cash Receipts Over(Under) Cash Disbursements                                     | 172,686                        | (18,900)                   | 19,048                  | (780,959)                   | (608,125)                               |
| <b>Other Sources (Uses):</b>   |                                |                            |                         |                             |   |
| Sale of Fixed Assets   | 48,761                         |                            |                         |                             | 48,761                                  |
| Proceeds of Notes  |                                |                            |                         | 306,000                     | 306,000                                 |
| Refund of Prior Year Expenditures  | 605                            | 82                         |                         | 2,738                       | 3,425                                   |
| Refund of Prior Year Receipts  | (289)                          |                            |                         | (15,692)                    | (15,981)                                |
| Advance In   | 13,579                         | 1,000                      |                         |                             | 14,579                                  |
| Advances Out   | (16,000)                       | (13,579)                   |                         |                             | (29,579)                                |
| Operating Transfers In   |                                | 98,753                     |                         |                             | 98,753                                  |
| Operating Transfers Out  | (98,753)                       |                            |                         |                             | (98,753)                                |
| <b>Total Other Sources (Uses)</b>  | <b>(52,097)</b>                | <b>86,256</b>              |                         | <b>293,046</b>              | <b>327,205</b>                          |
| Cash Receipts and Other Sources Over(Under)<br>Cash Disbursements and Other Uses | 120,589                        | 67,356                     | 19,048                  | (487,913)                   | (280,920)                               |
| Fund Cash Balances at Beginning of Year,<br>Restated (See Note 3)                | 1,501,556                      | 203,794                    | 236,707                 | 632,544                     | 2,574,601                               |
| <b>Fund Cash Balances at End of Year</b>   | <b>\$1,622,145</b>             | <b>\$271,150</b>           | <b>\$255,755</b>        | <b>\$144,631</b>            | <b>\$2,293,681</b>                      |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

|   | Proprietary<br>Fund Type | Fiduciary<br>Funds | Totals<br>(Memorandum<br>Only) |
|---|--------------------------|--------------------|--------------------------------|
|   | Enterprise               | Agency             |                                |
| <b>Operating Receipts</b>   |                          |                    |                                |
| Food Services   | \$213,531                |                    | \$213,531                      |
| Tuition   | 31,072                   |                    | 31,072                         |
| Extracurricular Activities  |                          | \$77,504           | 77,504                         |
| <b>Total Operating Receipts</b>   | <b>244,603</b>           | <b>77,504</b>      | <b>322,107</b>                 |
| <b>Operating Disbursements</b>  |                          |                    |                                |
| Salaries  | 130,549                  | 1,041              | 131,590                        |
| Fringe Benefits   | 30,622                   | 136                | 30,758                         |
| Purchased Services  | 8,064                    |                    | 8,064                          |
| Materials and Supplies  | 142,859                  |                    | 142,859                        |
| Capital Outlay  | 45,926                   |                    | 45,926                         |
| Other Objects   | 369                      | 83,985             | 84,354                         |
| <b>Total Operating Disbursements</b>  | <b>358,389</b>           | <b>85,162</b>      | <b>443,551</b>                 |
| Operating Income (Loss)   | (113,786)                | (7,658)            | (121,444)                      |
| <b>Non-Operating Receipts</b>   |                          |                    |                                |
| Miscellaneous   | 50                       | 17,142             | 17,192                         |
| Earnings on Investments   | 441                      |                    | 441                            |
| Sale of Fixed Assets  | 1,918                    | 448                | 2,366                          |
| Advances In   | 15,000                   |                    | 15,000                         |
| Refund Prior Year Expenditure   | 17                       |                    | 17                             |
| Federal and State Subsidies   | 39,962                   |                    | 39,962                         |
| <b>Total Non-Operating Receipts</b>   | <b>57,388</b>            | <b>17,590</b>      | <b>74,978</b>                  |
| Excess (Deficiency) of Receipts and Other Sources<br>Over (Under) Disbursements | (56,398)                 | 9,932              | (46,466)                       |
| Fund Cash Balance at Beginning of Year,<br>Restated (See Note 3)                | 122,590                  | 43,803             | 166,393                        |
| <b>Fund Cash Balance at End of Year</b>   | <b>\$66,192</b>          | <b>\$53,735</b>    | <b>\$119,927</b>               |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| Fund Types/Fund         | <u>Budget</u>      | <u>Actual</u>      | <u>Variance<br/>Favorable/<br/>(Unfavorable)</u> |
|-------------------------|--------------------|--------------------|--|
| <b>Governmental:</b>    |                    |                    |  |
| General Fund            | \$5,712,353        | \$6,122,178        | \$409,825  |
| Special Revenue Funds   | 637,798            | 741,869            | 104,071  |
| Debt Service Funds      | 390,281            | 273,479            | (116,802)  |
| Capital Project Funds   | 512,911            | 510,766            | (2,145)  |
| <b>Proprietary:</b>     |                    |                    |  |
| Enterprise Funds        | 298,195            | 286,991            | (11,204)   |
| <b>Fiduciary:</b>       |                    |                    |  |
| Agency Funds            | 78,233             | 95,094             | 16,861   |
| Total (Memorandum Only) | <u>\$7,629,771</u> | <u>\$8,030,377</u> | <u>\$400,606</u>                                 |

*The notes to the financial statements are an integral part of this statement.*

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| <b>Fund Types/Fund</b>         | <b>Prior Year<br/>Carryover<br/>Appropriations</b> | <b>2002<br/>Appropriations</b> | <b>Total</b>              |
|--------------------------------|--|--------------------------------|---------------------------|
| <b>Governmental:</b>           |  |                                |                           |
| General Fund                   | \$87,648   | \$6,601,714                    | \$6,689,362               |
| Special Revenue Funds          | 70,409   | 696,255                        | 766,664                   |
| Debt Service Funds             |  | 261,817                        | 261,817                   |
| Capital Project Funds          | 568,214  | 469,672                        | 1,037,886                 |
| <b>Proprietary:</b>            |  |                                |                           |
| Enterprise Funds               | 29,646   | 351,547                        | 381,193                   |
| <b>Fiduciary:</b>              |  |                                |                           |
| Agency Funds                   | 2,631  | 99,781                         | 102,412                   |
| <b>Total (Memorandum Only)</b> | <b><u>\$758,548</u></b>                            | <b><u>\$8,480,786</u></b>      | <b><u>\$9,239,334</u></b> |

*The notes to the financial statements are an integral part of this statement.*

| <u>Actual 2002<br/>Disbursements</u> | <u>Encumbrances<br/>Outstanding<br/>At 6/30/02</u> | <u>Total</u>       | <u>Variance<br/>Favorable/<br/>(Unfavorable)</u> |
|--------------------------------------|--|--------------------|--|
| \$5,999,168                          | \$171,724  | \$6,170,892        | \$518,470  |
| 661,934                              | 38,345   | 700,279            | 66,385   |
| 254,431                              |  | 254,431            | 7,386  |
| 998,679                              | 55,531   | 1,054,210          | (16,324)   |
| 358,389                              | 462  | 358,851            | 22,342   |
| 85,162                               | 4,354  | 89,516             | 12,896   |
| <u>\$8,357,763</u>                   | <u>\$270,416</u>                                   | <u>\$8,628,179</u> | <u>\$611,155</u>                                 |

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**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

Fort Recovery Local School District (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 is located in a rural community in Northwest Ohio. It is staffed by 48 non-certificated employees, 62 certificated full-time teaching personnel who provide services to 1,000 students and other community members.

**A. Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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, 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 organization's governing 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 access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District does not have any component units.

The District is associated with eight organizations which are defined as jointly governed organizations, related organizations and public entity risk pools. These organizations include Northwest Ohio Area Computer Services Cooperative (NOACSC), Mercer County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resources Center (SERRC), Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program, Mercer Auglaize Employee Benefit Trust, and Fort Recovery Public Library. These organizations are presented in Notes 12, 13, and 14 to the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

As required by Ohio Administrative Code Section 117-2-03 (B), the District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the District chooses to prepare (for audit purposes) its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**B. Fund Accounting**

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**1. Governmental Fund Types**

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

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund** - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**Capital Projects Funds** - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**2. Proprietary Fund Types**

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the District's proprietary fund types:

**Enterprise Funds** - Enterprise funds are used to account for District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**3. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include agency funds.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**C. Budgetary Process**

**1. Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

**2. Estimated Resources**

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Interest earnings are allocated as authorized by state statute based upon District policy.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**E. Unpaid Vacation and Sick Leave**

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

**F. Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**G. Total Columns on the Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES**

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

|  | <u>General</u>     | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Project</u> | <u>Enterprise</u> |
|--|--------------------|----------------------------|-------------------------|----------------------------|-------------------|
| Fund Balance / Retained Earnings,<br>June 30, 2001 | \$1,105,879        | \$148,129                  | \$239,329               | \$557,275                  | \$358,761         |
| Accrual adjustments                                | <u>395,677</u>     | <u>55,665</u>              | <u>(2,622)</u>          | <u>75,269</u>              | <u>(236,171)</u>  |
| Restated Fund Balance,<br>July 1, 2001             | <u>\$1,501,556</u> | <u>\$203,794</u>           | <u>\$236,707</u>        | <u>\$632,544</u>           | <u>\$ 122,590</u> |

**4. COMPLIANCE**

At fiscal year end the expenditures of the Capital Projects Fund Type were in excess of appropriations.

**5. 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

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

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

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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. Investments may only be made through specified dealers and institutions. Payments 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.

Protection of the 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.

As of June 30, 2002, the District's \$3,876 in undeposited cash on hand which is included in the fund balance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*".

**Deposits** - At fiscal year end, the carrying amount of the District's deposits was \$1,809,055 and the bank balance was \$1,997,699. Of the bank balance, \$405,705 was covered by federal depository insurance and \$1,591,994 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. At June 30, 2002, the District's repurchase agreements, which are a Category 3 investment, had a carrying amount of \$600,677 and a fair value of \$601,353.

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District's 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 school district. Real property tax revenue received in calendar 2002 represents collections of calendar year 2001 taxes. Real property taxes received in calendar year 2002 were levied after April 1, 2001, on the assessed value listed as of January 1, 2001, 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.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**6. PROPERTY TAXES**

Public utility real and tangible personal property taxes received in calendar year 2002 became a lien December 31, 2000, were levied after April 1, 2001 and are collected in 2002 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 2002 (other than public utility property) represents the collection of 2002 taxes. Tangible personal property taxes received in calendar year 2002 were levied after April 1, 2002, on the value as of December 31, 2001. 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.

The District receives property taxes from Mercer and Darke Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2002 taxes were collected are:

|   | <u>2001 Second-Half</u> |                | <u>2002 First-Half</u> |                |
|---|-------------------------|----------------|------------------------|----------------|
|   | <u>Amount</u>           | <u>Percent</u> | <u>Amount</u>          | <u>Percent</u> |
| Agricultural/Residential<br>And Other Real Estate | \$57,176,180            | 83.40%         | \$58,551,220           | 83.75%         |
| Public Utility                                    | 3,828,960               | 5.58           | 3,678,930              | 5.26           |
| Tangible Personal Property                        | 7,558,628               | 11.02          | 7,680,833              | 10.99          |
| Total Assessed Value                              | <u>\$68,563,768</u>     | <u>100.00%</u> | <u>\$69,910,983</u>    | <u>100.00%</u> |
| Tax Rate per \$1,000 of assessed valuation        | \$34.10                 |                | \$33.60                |                |

**7. INCOME TAXES**

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

**8. RISK MANAGEMENT**

**Public Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted for the following insurance coverage:

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**8. RISK MANAGEMENT (Continued)**

Coverage provided by Indiana Insurance is as follows:

|   |              |
|---|--------------|
| Buildings and Contents - replacement cost | \$26,784,054 |
| Inland Marine (\$250 deductible)          | 253,765      |

Coverage provided by Great American Alliance Insurance is as follows:

|                   |           |
|-------------------|-----------|
| General Liability |           |
| Per Occurrence    | 1,000,000 |
| Aggregate         | 5,000,000 |

Coverage provided by Nationwide Insurance is as follows:

|   |           |
|---|-----------|
| Automobile Liability (\$250 deductible) | 2,000,000 |
| Uninsured Motorists                     | 2,000,000 |

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

**Worker's Compensation**

For fiscal year 2002, the District participated in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the Program), an insurance purchasing pool. The Program is intended to reduce premiums for the participants. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to educational entities that can meet the Program's selection criteria. Each participant must apply annually. The Program provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**Health Care Benefits**

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

**9. PENSION PLANS**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. PENSION PLANS (Continued)**

STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$270,389, \$261,592, and \$155,198, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000.

**B. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$49,125, \$35,354, and \$38,269, respectively; 51 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000.

**C. Social Security System**

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

**10. POSTEMPLOYMENT BENEFITS**

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$128,079.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$88,925 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**11. LONG-TERM OBLIGATIONS**

The changes in the District's debt during fiscal year 2002 were as follows:

| <b>Debt Obligations</b>          | <b>Outstanding<br/>6/30/01</b> | <b>Additions</b> | <b>Deductions</b> | <b>Outstanding<br/>6/30/02</b> |
|----------------------------------|--------------------------------|------------------|-------------------|--------------------------------|
| 1998 School Improvement Bonds    |                                |                  |                   |                                |
| Serial and Term Bonds 3.75%-4.9% | \$2,905,000                    | \$ -             | \$100,000         | \$2,805,000                    |
| Capital Appreciation Bonds 7.5%  | 303,953                        | 14,911           |                   | 318,864                        |
| 2002 Building Loan               |                                |                  |                   |                                |
| Variable Interest                | -                              | 306,000          | -                 | 306,000                        |
| Environmental Protection Agency  |                                |                  |                   |                                |
| 1989 Asbestos Abatement Loan     |                                |                  |                   |                                |
| Interest Free                    | 39,349                         | -                | 8,744             | 30,605                         |
| Environmental Protection Agency  |                                |                  |                   |                                |
| 1986 Asbestos Abatement Loan     |                                |                  |                   |                                |
| Interest Free                    | 42,989                         | -                | 5,732             | 37,257                         |
| <b>Total Debt</b>                | <b>\$3,291,291</b>             | <b>\$320,911</b> | <b>\$ 114,476</b> | <b>\$3,497,726</b>             |

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

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

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

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

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

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

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$525,000. For fiscal year 2002, \$14,911 was accreted for total bond value of \$318,864.

**2002 Building Loan** - In fiscal year 2002, the School District obtained a loan, in the amount of \$306,000, from the OASBO Expanded Asset Capital Pool. Interest is being paid monthly at a variable rate. Principal will be paid in four annual installments, with final maturity in fiscal year 2006. The loan is being retired from the Bond Retirement debt service fund.

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

The School District's overall debt margin was \$3,435,873 with an unvoted debt margin of \$69,911 at June 30, 2002.

The 2002 building loan has a variable interest rate that is being calculated monthly; therefore, no interest is included in the amortization schedule below.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002, were as follows:

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>General<br/>Obligation<br/>Bonds</u> | <u>2002<br/>Building<br/>Loan</u> | <u>1989 EPA<br/>Asbestos<br/>Loan</u> | <u>1986 EPA<br/>Asbestos<br/>Loan</u> |
|--|---|-----------------------------------|---------------------------------------|---------------------------------------|
| 2003                                   | \$233,145                               | \$72,000                          | \$5,732                               | \$8,744                               |
| 2004                                   | 238,606                                 | 75,000                            | 5,732                                 | 8,744                                 |
| 2005                                   | 268,033                                 | 78,000                            | 5,732                                 | 8,744                                 |
| 2006                                   | 251,835                                 | 81,000                            | 5,732                                 | 4,373                                 |
| 2007                                   | 255,563                                 | 0                                 | 5,732                                 | 0                                     |
| 2008 - 2012                            | 1,247,275                               | 0                                 | 8,597                                 | 0                                     |
| 2013 - 2017                            | 1,479,870                               | 0                                 | 0                                     | 0                                     |
| 2018 - 2021                            | 785,896                                 | 0                                 | 0                                     | 0                                     |
|  | <u>\$4,760,223</u>                      | <u>\$306,000</u>                  | <u>\$37,257</u>                       | <u>\$30,605</u>                       |

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

**12. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative**

The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among member school districts, including both public school districts and county boards of education, in Allen, Auglaize, Hancock, Mercer, Paulding, Putnam, and Van Wert counties.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each school supports NOACSC based upon a per pupil charge. The Governing Board of NOACSC consists of two representatives from each county and one representative from the fiscal agent. The representatives from each county are elected by a majority vote of all county member schools. Financial information can be obtained from Michael Wildermuth, Director, at 645 South Main St., Lima, Ohio 45805.

**Mercer County Local Professional Development Committee**

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

**West Central Ohio Special Education Regional Resource Center**

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Harding County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**West Central Ohio Regional Professional Development Center**

The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting the Treasurer, Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio.

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**13. INSURANCE PURCHASING POOLS**

**Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program**

The District participates in the Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a twenty-five member Board of directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site.

The Treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Program to cover the costs of administering the program and its financial operations.

**Mercer Auglaize Employee Benefit Trust**

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

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

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**14. RELATED ORGANIZATIONS**

**Fort Recovery Public Library**

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

**15. STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

|  | <u>Budget<br/>Reserve</u> | <u>Textbooks</u>    | <u>Capital<br/>Acquisitions</u> |
|--|---------------------------|---------------------|---------------------------------|
| Set-Aside Cash Balance<br>As of June 30, 2002      | \$ 17,532                 | \$(182,552)         | \$0                             |
| Legislative Reduction                              | (17,532)                  | -                   | 0                               |
| Required Set-Aside                                 | -                         | 118,108             | 118,108                         |
| Current Year Offset                                | -                         | -                   | (118,108)                       |
| Qualifying Expenditures                            | -                         | (149,731)           | -                               |
| Cash Balance Carried Forward<br>To Subsequent Year | <u>\$ -</u>               | <u>\$ (214,175)</u> | <u>\$ 0</u>                     |

The School District had qualifying disbursements during the year that reduced the textbooks set-aside amounts to below zero. Ohio Revised Code Section 3315.17 allows for the extra amount to carry over into future years.

**16. GRANTS**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002.

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**17. STATE SCHOOL FUNDING DECISION**

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

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

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



## **Auditor of State Betty Montgomery**

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

Fort Recovery Local School District  
Mercer County  
PO Box 604  
Fort Recovery, Ohio 45846

To the Board of Education:

We have audited the financial statements of Fort Recovery Local School District, Mercer County, (the School District), as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated December 11, 2003, which noted the School District prepared and filed its financial statements on a basis of accounting other than as prescribed by Ohio Administrative Code Section 117-2-03(B) for the fiscal year ended June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 11, 2003.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate dated December 11, 2003.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402  
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

This report is intended for the information and use of the Board of Education and management, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 11, 2003

**FORT RECOVERY LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

**FINDING NUMBER - 2003-001**

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

**Ohio Admin Code Section 117-2-03 (B)**, requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2003. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**FORT RECOVERY LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 4, 2004**