

FORT FRYE LOCAL SCHOOL DISTRICT
ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



**Auditor of State
Betty Montgomery**

Board of Trustees
Fort Frye Local School District

We have reviewed the Independent Auditor's Report of the Fort Frye Local School District, Washington County, prepared by Wolfe, Wilson, & Phillips, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fort Frye Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 18, 2005

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**FORT FRYE LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Board of Education
Fort Frye Local School District
Beverly, Ohio 45715

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Frye Local School District as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 17-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the School District prepares and files its financial statements on the cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, net assets, and disclosures that, while material, cannot be determined at this time. As of and for the year ended June 30, 2003, the District prepared its annual financial report in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position -cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Frye Local School District as of June 30, 2004, and the respective changes in financial position-cash basis thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 2005, on our consideration of Fort Frye Local School District's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 9, is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Fort Frye Local School District, taken as a whole. The accompanying schedule of expenditures of federal awards expenditures is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
March 11, 2005

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$357,507.
- General receipts accounted for \$7,627,046 in receipts or 76% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$2,405,491 or 24% of total receipts of \$10,032,537.
- The School District had \$10,390,044 in disbursements related to governmental activities; only \$2,405,491 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$7,627,046 were not adequate to provide for these programs by \$357,507.
- The School District's major funds were the General Fund and the Permanent Improvement Capital Projects Fund. The General Fund had \$8,134,382 in receipts and \$8,269,652 in disbursements. The General Fund's balance decreased \$11,445. The Permanent Improvement Fund had \$590,863 in receipts and \$781,764 in disbursements. The Permanent Improvement Fund's balance decreased \$322,890.

Using this Annual Financial Report

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

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

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2004?” The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 9. Fund financial reports provide detailed information about the School District’s major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund and the Bond Retirement Fund.

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

The School District as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District’s net assets for 2004 compared to 2003.

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 1		
Net Assets - Cash Basis		
	Governmental Activities	
	2004	2003
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,333,380	\$2,690,887
Net Assets		
Restricted	511,949	848,733
Unrestricted	1,821,431	1,842,154
Total Net Assets	\$2,333,380	\$2,690,887

The above table reflects a decrease in net assets of \$357,507. The predominant factor in the decrease in net assets was the purchase of two school buses and a paving project at Fort Frye High School, Beverly Elementary and Center Elementary which resulted in an outlay in excess of \$495,000, paid from the Permanent Improvement Fund. There were also increased General Fund costs in negotiated salary increases and increased health insurance premiums.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Fort Frye Local School District has prepared financial statements following GASB Statement 34 under the cash method, receipt and disbursement comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Fort Frye Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Table 2	
Changes in Net Assets	
	Governmental
	Activities
	2004
Receipts	
Program Cash Receipts	
Charges for Services	\$1,062,505
Operating Grants, Contributions and Interest	1,303,729
Capital Grants and Contributions	39,257
Total Program Cash Receipts	<u>2,405,491</u>
General Receipts	
Property Taxes	3,425,604
Grants and Entitlements	4,148,268
Investment Earnings	37,530
Receipts from Sale of Capital Assets	6,779
Miscellaneous	8,865
Total General Receipts	<u>7,627,046</u>
Total Receipts	<u>10,032,537</u>
Program Disbursements	
Instruction:	
Regular	3,997,859
Special	802,641
Vocational	245,677
Support Services:	
Pupils	294,419
Instructional Staff	494,899
Board of Education	56,489
Administration	886,716
Fiscal	330,256
Operation and Maintenance of Plant	823,202
Pupil Transportation	860,030
Central	119,548
Operation of Non-Instructional Services:	
Food Service Operations	406,934
Other	100,823
Extracurricular Activities	228,847
Capital Outlay	573,031
Principal Retirement	150,000
Interest and Fiscal Charges	18,673
Total Disbursements	<u>10,390,044</u>
Increase in Net Assets	<u>(\$357,507)</u>

Fort Frye Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

In March of 2000, the electors of the School District approved a 5 mill, 5 year Permanent Improvement Levy. This levy produces approximately \$535,000 per year to be used for capital improvements within the School District. The School District has been able to complete several major projects since 2001, most recently, the paving project at Beverly and Center Elementary Schools and Fort Frye High School. Also, two new school buses were purchased in fiscal year 2004. The levy proceeds have enabled the School District to do these much needed improvements without spending General Fund monies.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 34% of revenues for governmental activities for the Fort Frye Local School District in fiscal year 2004. If trends continue as indicated in the School District's Five Year Forecast, the Board of Education will likely have to place an operating levy on the ballot.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 3		
Governmental Activities		
	Total Cost	Net Cost
	of Services	of Services
	2004	2004
Program Disbursements		
Instruction:		
Regular	\$3,997,859	\$3,188,040
Special	802,641	154,168
Vocational	245,677	225,108
Support Services:		
Pupils	294,419	272,486
Instructional Staff	494,899	361,052
Board of Education	56,489	56,489
Administration	886,716	884,078
Fiscal	330,256	329,110
Operation and Maintenance of Plant	823,202	814,488
Pupil Transportation	860,030	799,918
Central	119,548	87,467
Operation of Non-Instructional Services		
Food Service	406,934	(19,089)
Other	100,823	(16,782)
Extracurricular Activities	228,847	106,316
Capital Outlay	573,031	573,031
Principal Retirement	150,000	150,000
Interest and Fiscal Charges	18,673	18,673
Total	\$10,390,044	\$7,984,553

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 67% of instruction activities were supported through taxes and other general revenues.

As the table shows, the School District receives enough in charges for services and/or operating grants and contributions to support food service and non-public schools programs. That is, these programs are self-supporting. Fort Frye Local School District serves as fiscal agent for State funds for St. John Central Elementary School.

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District Funds

The School District's major funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$10,025,758 and disbursements of \$10,390,044. The General Fund had a decrease in fund balance of \$11,445 due to a combination of factors, primarily increased negotiated salaries and health insurance premiums. The Permanent Improvement Fund also had a decrease in fund balance of \$322,890, due to Fiscal Year 2004 capital projects costing more than in the previous year.

General Fund Budgeting Highlights

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

During the course of 2004, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$8,125,225, above original estimates of \$7,576,102. The \$549,123 difference was mainly due to updating the amounts for the state school foundation funds as they became available.

The School District's ending unobligated General Fund balance was \$1,671,288.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$12,824,200 in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land and Land Improvements	\$1,579,170	\$1,128,771
Buildings and Improvements	5,689,519	5,596,494
Furniture and Equipment	4,210,304	4,161,307
Vehicles	1,345,207	1,382,156
Construction in Progress	0	99,317
Totals	\$12,824,200	\$12,368,045

Fort Frye Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

During fiscal year 2004, the Board of Education purchased two (2) new school buses for \$119,960, and paved the parking lots at Beverly and Center Elementaries and paved the existing parking lots and created one new parking lot at Fort Frye High School for \$473,393 including architectural and engineering fees. Most of these costs were paid from the Permanent Improvement Fund.

Debt

At June 30, 2004, the School District had \$300,000 in notes outstanding.

Table 5		
Outstanding Debt, at Fiscal Year End		
	Governmental Activities	
	2004	2003
2001 Tax Anticipation Note - 4.75%	\$300,000	\$450,000

On May 10, 2001, the School District issued \$750,000 in a tax anticipation note for the new roof at the high school. The note was issued for a five year period. See Note 11 for more information regarding debt.

Current Issues

Based upon Five Year Financial Forecast, the School District faces a dwindling ending cash balance. Due to changes in the law which reduces the business tax base and the overall economic climate, the School District will remain in this position for the foreseeable future until new funding can be assured.

Based on the current financial situation, and the uncertainty of funding, the School District will be challenged to maintain the current program and staffing levels. Staff and program reductions may have to be made in the future in order to balance the budget.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

We continue to conduct business in a fiscally conservative manner in order to ensure the taxpayers that we are prudent with their tax dollars while also providing the best educational programs for our students..

We continually monitor those legislative actions which affect public education, and respond rapidly to adjust our way of doing business to accommodate those changes.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Larry D. James, Treasurer at Fort Frye Local School District, PO Box 1149, Beverly, Ohio 45715, or E-Mail at ff_ljames@SEOVEC.ORG.

Fort Frye Local School District, Ohio

Statement of Net Assets - Cash Basis

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,333,380</u>
Net Assets	
Restricted for:	
Capital Projects	346,233
Other Purposes	165,716
Unrestricted	<u>1,821,431</u>
<i>Total Net Assets</i>	<u>\$2,333,380</u>

See accompanying notes to the basic financial statements

Fort Frye Local School District, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2004*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
					Disbursements
			and Interest	Contributions	Net Assets
					Governmental
					Activities
Governmental Activities					
Instruction:					
Regular	\$3,997,859	\$692,686	\$99,178	\$17,955	(\$3,188,040)
Special	802,641	0	648,473	0	(154,168)
Vocational	245,677	253	20,316	0	(225,108)
Support Services:					
Pupils	294,419	8,975	12,958	0	(272,486)
Instructional Staff	494,899	0	133,847	0	(361,052)
Board of Education	56,489	0	0	0	(56,489)
Administration	886,716	0	2,638	0	(884,078)
Fiscal	330,256	0	1,146	0	(329,110)
Operation and Maintenance of Plant	823,202	6,817	1,897	0	(814,488)
Pupil Transportation	860,030	3,248	35,562	21,302	(799,918)
Central	119,548	0	32,081	0	(87,467)
Operation of Non-Instructional Services:					
Food Service Operations	406,934	225,218	200,805	0	19,089
Other	100,823	2,777	114,828	0	16,782
Extracurricular Activities	228,847	122,531	0	0	(106,316)
Capital Outlay	573,031	0	0	0	(573,031)
Principal Retirement	150,000	0	0	0	(150,000)
Interest and Fiscal Charges	18,673	0	0	0	(18,673)
Totals	\$10,390,044	\$1,062,505	\$1,303,729	\$39,257	(7,984,553)
General Receipts					
Property Taxes Levied for:					
General Purposes					2,882,275
Capital Outlay					543,329
Grants and Entitlements not Restricted to Specific Programs					4,148,268
Investment Earnings					37,530
Receipts from Sale of Capital Assets					6,779
Miscellaneous					8,865
Total General Receipts					7,627,046
Change in Net Assets					(357,507)
Net Assets Beginning of Year					2,690,887
Net Assets End of Year					\$2,333,380

See accompanying notes to the financial statements

Fort Frye Local School District, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,796,999	\$344,841	\$191,540	\$2,333,380
Fund Balances				
Reserved for Encumbrances	125,711	16,463	75,328	217,502
Reserved for Property Taxes	22,297	4,919	0	27,216
Unreserved, Undesignated, Reported in:				
General Fund	1,648,991	0	0	1,648,991
Special Revenue Funds	0	0	115,417	115,417
Capital Projects Funds	0	323,459	795	324,254
<i>Total Fund Balances</i>	<u>\$1,796,999</u>	<u>\$344,841</u>	<u>\$191,540</u>	<u>\$2,333,380</u>

See accompanying notes to the basic financial statements

Fort Frye Local School District, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$2,882,275	\$543,329	\$0	\$3,425,604
Intergovernmental	4,503,474	47,534	896,189	5,447,197
Investment Earnings	37,530	0	186	37,716
Charges for Services	0	0	225,218	225,218
Tuition and Fees	673,481	0	12,105	685,586
Extracurricular Activities	0	0	124,445	124,445
Miscellaneous	37,622	0	42,370	79,992
<i>Total Receipts</i>	<u>8,134,382</u>	<u>590,863</u>	<u>1,300,513</u>	<u>10,025,758</u>
Disbursements				
Current:				
Instruction:				
Regular	3,860,402	0	137,457	3,997,859
Special	450,107	0	352,534	802,641
Vocational	244,602	0	1,075	245,677
Support Services:				
Pupils	272,278	0	22,141	294,419
Instructional Staff	355,741	0	139,158	494,899
Board of Education	56,489	0	0	56,489
Administration	883,771	0	2,945	886,716
Fiscal	312,177	16,800	1,279	330,256
Operation and Maintenance of Plant	821,994	0	1,208	823,202
Pupil Transportation	774,834	85,196	0	860,030
Central	71,251	0	48,297	119,548
Operation of Non-Instructional Services	0	0	507,757	507,757
Extracurricular Activities	104,070	0	124,777	228,847
Capital Outlay	61,936	511,095	0	573,031
Debt Service:				
Principal Retirement	0	150,000	0	150,000
Interest and Fiscal Charges	0	18,673	0	18,673
<i>Total Disbursements</i>	<u>8,269,652</u>	<u>781,764</u>	<u>1,338,628</u>	<u>10,390,044</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(135,270)</u>	<u>(190,901)</u>	<u>(38,115)</u>	<u>(364,286)</u>
Other Financing Sources (Uses)				
Advances In	142,928	0	15,788	158,716
Advances Out	(15,788)	(131,989)	(10,939)	(158,716)
Sale of Capital Assets	6,779	0	0	6,779
Transfer In	0	0	10,094	10,094
Transfer Out	(10,094)	0	0	(10,094)
<i>Total Other Financing Sources (Uses)</i>	<u>123,825</u>	<u>(131,989)</u>	<u>14,943</u>	<u>6,779</u>
<i>Net Change in Fund Balance</i>	<u>(11,445)</u>	<u>(322,890)</u>	<u>(23,172)</u>	<u>(357,507)</u>
<i>Fund Balances Beginning of Year</i>	<u>1,808,444</u>	<u>667,731</u>	<u>214,712</u>	<u>2,690,887</u>
<i>Fund Balances End of Year</i>	<u>\$1,796,999</u>	<u>\$344,841</u>	<u>\$191,540</u>	<u>\$2,333,380</u>

See accompanying notes to the financial statements

Fort Frye Local School District, Ohio
*Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Taxes	\$2,806,000	\$2,882,275	\$2,882,275	\$0
Intergovernmental	3,978,959	4,503,474	4,503,474	0
Investment Earnings	61,000	35,488	37,530	2,042
Tuition and Fees	718,843	670,233	670,233	0
Miscellaneous	11,300	31,713	31,713	0
<i>Total Receipts</i>	<u>7,576,102</u>	<u>8,123,183</u>	<u>8,125,225</u>	<u>2,042</u>
Disbursements				
Current:				
Instruction:				
Regular	4,064,524	3,877,409	3,877,409	0
Special	498,380	450,107	450,107	0
Vocational	249,916	248,723	248,723	0
Support Services:				
Pupils	326,202	278,274	278,274	0
Instructional Staff	402,033	357,417	357,417	0
Board of Education	73,088	64,771	64,771	0
Administration	940,478	890,672	890,672	0
Fiscal	346,608	312,177	312,177	0
Operation and Maintenance of Plant	1,064,937	842,395	842,395	0
Pupil Transportation	747,315	777,130	777,130	0
Central	102,154	71,251	71,251	0
Extracurricular Activities	107,869	104,070	104,070	0
Capital Outlay	202,492	120,967	120,967	0
<i>Total Disbursements</i>	<u>9,125,996</u>	<u>8,395,363</u>	<u>8,395,363</u>	<u>0</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(1,549,894)</u>	<u>(272,180)</u>	<u>(270,138)</u>	<u>2,042</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	4,000	6,779	6,779	0
Refund of Prior Year Expenditures	25,000	9,157	9,157	0
Advances In	10,000	142,928	142,928	0
Advances Out	(70,000)	(15,788)	(15,788)	0
Transfer Out	(10,000)	(10,094)	(10,094)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(41,000)</u>	<u>132,982</u>	<u>132,982</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(1,590,894)</u>	<u>(139,198)</u>	<u>(137,156)</u>	<u>2,042</u>
<i>Fund Balance Beginning of Year</i>	<u>1,664,434</u>	<u>1,664,434</u>	<u>1,664,434</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>144,010</u>	<u>144,010</u>	<u>144,010</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$217,550</u>	<u>\$1,669,246</u>	<u>\$1,671,288</u>	<u>\$2,042</u>

See accompanying notes to the basic financial statements

Fort Frye Local School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Agency Fund
June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$28,448</u>
Net Assets	
Restricted for Students	<u>\$28,448</u>

See accompanying notes to the basic financial statements

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Fort Frye Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's six instructional/support facilities staffed by 90 classified employees and 88 certified personnel, who provide services to 1,232 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Fort Frye Local School District, this includes general operations, food service, and student-related activities. The following activities are also included within the reporting entity.

Parochial School - Within the School District boundaries, St. John Central Elementary School is operated through the Steubenville Catholic Diocese. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Chief Fiscal Officer of the School District, as directed by the parochial school. This activity is reflected in a special revenue fund for financial reporting purposes.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Washington County Career Center, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles, the School District chooses to prepare its financial statements and notes in accordance with cash-basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The School District also reports long-term investments as assets, valued at cost.

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

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

Governmental: The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The General Fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Permanent Improvement Fund The Permanent Improvement Fund accounts for the acquisition, construction, or improvement of capital facilities and for the related debt.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination the changes in net assets and financial position. Proprietary funds are classified as enterprise or internal service; the School District has no proprietary funds.

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

B. Basis of Presentation

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

Government-wide Statement of Activities: This statement displays information about the School District as a whole, except for fiduciary funds. The statement reports governmental activities separately from business-type activities, if any.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

business segment or governmental function is self-financing on the cash basis or draws from the School District's general receipts.

Fund Financial Statements: Fund financial statements report more detailed information about the School District. The focus of governmental is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column.

C. Cash, Cash Equivalents, and Investments

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

The School District values investments and cash equivalents at cost. For presentation on the financial statements, the School District classifies investments of the cash management pool as cash equivalents.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2004 was \$37,530, including \$8,400 assigned from other School District funds.

D. Inventory and Prepaid Items

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

G. Long-term Obligations

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

H. Fund Balance Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes available against the first real estate tax settlement in fiscal year 2005 but not available for appropriation under State statute.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

I. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws, or regulations of other governments have imposed limitations on their use.

The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

J. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. Note 5 lists unpaid advances.

K. Budgetary Process

Ohio law requires the Board of Education to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Note 3 - Property Taxes

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

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

The School District receives property taxes from Washington, Morgan, and Noble Counties. The Washington County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2004, was \$22,297 in the General Fund and \$4,919 in the Permanent Improvement Fund.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$72,578,310	62%	\$75,582,530	64%
Public Utility Personal	38,636,070	33%	37,581,480	32%
Tangible Personal Property	5,032,750	5%	4,480,610	4%
	<u>\$116,247,130</u>	<u>100%</u>	<u>\$117,644,620</u>	<u>100%</u>

Tax Rate per \$1,000 of
Assessed Valuation

\$40.50

\$40.50

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 4 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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.

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

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

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

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

7. Certain banker's acceptance 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 monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$2,361,828 and the bank balance was \$2,424,114. Of the bank balance, \$200,000 was covered by federal depository insurance and \$2,224,114 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District held to a successful claim by the FDIC.

Note 5 - Interfund Balances

Unpaid interfund cash advances at June 30, 2004, were as follows:

	Receivables	Payables
General Fund	\$40,542	\$0
Nonmajor Special Revenue Funds:		
Food Service	0	24,197
Uniform School Supplies	0	557
State Grants	0	2,482
Federal Grants	0	13,306
Total Special Revenue Funds	0	40,542
Total All Funds	\$40,542	\$40,542

The interfund transactions between the General Fund and nonmajor special revenue funds are due to the timing of grant receipts and receipt of school fees and lunch charges.

Note 6 - Interfund Transfers

During the year, the General Fund transferred \$10,094 to the State Grants Special Revenue Fund to reduce deficit cash balances.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Barengo Insurance Agency, Inc. for building and business personal property insurance.

General liability is protected by the Selective Insurance Company with a \$2,000,000 single occurrence limit with a \$4,000,000 aggregate and no deductible. Employee benefit liability is also protected by the Selective Insurance Company with a \$2,000,000 single occurrence with a \$4,000,000 aggregate and a \$1,000 deductible. The School District also has stop gap and umbrella liability coverage with Selective Insurance Company. The stop gap coverage is limited to \$1,000,000 for each accident/disease, the umbrella liability is limited to \$3,000,000 coverage and the errors and omissions liability has a \$1,000,000 single occurrence limit with a \$1,000,000 aggregate and a \$5,000 deductible. Vehicles are covered by Barengo Insurance Agency, Inc. and have a \$1,000 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

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

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

Note 8 - Defined Benefit 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, 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 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$475,499, \$464,262, and \$328,907, respectively; 83.56 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$747 made by the School District and \$765 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 2004, 9.09 percent of annual covered salary

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$129,039, \$116,289, and \$68,641, respectively; 53.93 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, no members of the Board of Education elected Social Security.

Note 9 - Postemployment Benefits

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$36,577 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$89,118.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 10 - Employee Benefits

The School District provides health and major medical insurance for all eligible employees. The School District pays monthly premiums of up to \$881.54 for family coverage and up to \$359.80 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries. The School District also provides prescription drug insurance to its employees through Medical Mutual of Ohio. This plan utilizes a \$4 per prescription deductible for name brands and no deductible for generic brands.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company in the amount of \$25,000 for its employees.

Dental coverage is provided through Coresource. Premiums for this coverage are \$42.98 monthly for family and \$15.92 for single coverage.

Note 11 - Long-Term Debt

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/03	Additions	Reductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
Tax Anticipation Note - 4.75%	\$450,000	\$0	\$150,000	\$300,000	\$150,000

The School District issued a note for \$750,000 on May 10, 2001, for a new roof on the high school. The note was issued for a five year period with final maturity during fiscal year 2006. The notes are retired through the Permanent Improvement Capital Projects Fund.

The overall debt margin of the School District as of June 30, 2004, was \$10,288,016, with an unvoted debt margin of \$117,645.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 12 – Contractual Commitments

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

Projects	Fund	Purchase Commitments	Amounts	Amounts
			Paid as of 6/30/2004	Remaining on Contracts
Paving of Parking Lots	Permanent Improvement			
	Capital Projects Fund	\$450,934	\$446,669	\$4,265
Renovation of Beverly Elementary Gym Floor	General Fund	30,959	0	30,959
Renovation of Beverly Elementary Gym Floor	Athletic and Music			
	Special Revenue Fund	15,479	0	15,479

Note 13 - Contingencies

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2004, will not have a material adverse effect on the School District.

B. Litigation

The School District is currently a party to litigation. See Note 18 for more information.

Note 14 - Set-Aside Calculations

State statute annually requires the School District to set aside in the General Fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2003	(\$1,039,872)	(\$225,212)
Current Year Set-aside Requirement	162,184	162,184
Qualifying Disbursements	(787,954)	(271,513)
Total	(\$1,665,642)	(\$334,541)
Set-aside Balance Carry Forward to Future Fiscal Years	(\$1,039,872)	(\$334,541)

Note 15 - State School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

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

Note 16 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 34 participants consisting of 30 school districts and 4 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2004, the School District paid \$34,483 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. Washington County Career Center

The Washington County Career Center, a joint vocational school, is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the six participating school districts' elected boards and one representative from the Washington County Educational Service Center's board. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Washington County Career Center, Mary Bee, Treasurer, at 21740 State Route 676, Marietta, Ohio 45750.

Fort Frye Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2004.

D. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)

SEOSERRC 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. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate 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 Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 18 – Subsequent Event

On November 30, 2004, the School District entered into a settlement and had to pay \$26,218 for a lawsuit that charged that the Board participated in an unfair labor practice by not renewing a limited teaching contract in 1988.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Fort Frye Local School District
Beverly, Ohio 45715

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Frye Local School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2005, wherein we noted the District has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. As of and for the year ended June 30, 2003, the District prepared financial statements in accordance with accounting principles generally accepted in the United States of America. 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 Fort Frye Local 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 we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-01. We also noted certain immaterial instances of noncompliance, which we have reported to management of Fort Frye Local School District in a separate letter dated March 11, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fort Frye Local 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 internal control over financial reporting that we have reported to management of Fort Frye Local School District in a separate letter dated March 11, 2005.

This report is intended for the information of the District's Board of Education, management, Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
March 11, 2005

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

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

Board of Education
Fort Frye Local School District
Beverly, Ohio 45715

Compliance

We have audited the compliance of Fort Frye Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. Fort Frye Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fort Frye Local School District management. Our responsibility is to express an opinion on Fort Frye Local School District's compliance based on our audit.

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

In our opinion, the Fort Frye Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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This report is intended for the information of the Board of Education, management, the Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
March 11, 2005

**FORT FRYE LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505**

1. Summary of Auditor's Results

(d)(1)(I)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	NO
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	Nutrition Cluster; CFDA #10.550 CFDA #10.553 CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs:	Type A: >\$300,000; Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
FINDING NUMBER 2004-01**

Noncompliance Citation

Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(B) provides that the District shall prepare its annual financial statement in accordance with accounting principles generally accepted in the United States of America.

**FORT FRYE LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505
(Continued)**

**2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
FINDING 2004-01 (Continued)**

Noncompliance Citation (Continued)

However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the District can be fined and various other administrative remedies for its failure to file the required financial report.

We recommend the District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

3. Findings and Questioned Costs for Federal Awards

NONE

**FORT FRYE LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>						
Pass through Ohio Department of Education						
Nutrition Cluster						
National School Breakfast Program	n/a	10.553	\$ 40,733	\$ -	\$ 40,733	\$ -
National School Lunch Program	n/a	10.555	151,065	-	151,065	-
Food Distribution Program	n/a	10.550	-	51,229	-	51,229
Total Nutrition Cluster			191,798	51,229	191,798	51,229
Total U.S. Department of Agriculture			191,798	51,229	191,798	51,229
<u>U.S. DEPARTMENT OF EDUCATION:</u>						
Pass through Ohio Department of Education						
Title I Educationally Deprived Children	050484C1S103 050484C1S104	84.010	28,621 279,806 308,427	- - -	40,156 265,698 305,854	- - -
Title VI-B Special Education Assistance for handicapped Children	0504846BSF03 0504846BSF04	84.027	9,790 117,880 127,670	- - -	15,268 106,842 122,110	- - -
Drug Free School Program	050484DRS103 050484DRS104	84.186	(1,261) 4,450 3,189	- - -	- 2,856 2,856	- - -
Eisenhower Professional Dev. Grant	050484MSS104	84.281	(805) (805)	- -	- -	- -
Innovative Education Program Strategies	050484C2S104	84.298	7,223 7,223	- -	6,616 6,616	- -
Technology Literacy Challenge	050484TJS104	84.318	9,337 9,337	- -	10,172 10,172	- -
Improving Teacher Quality State Grant	050484TRS104	84.367	79,821 79,821	- -	75,573 75,573	- -
School Renovation Grant (ATIP)	050484ATS303	84.352A	(2,108) (2,108)	- -	2,880 2,880	- -
Total U.S. Department of Education			532,754	-	526,061	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
Pass through Ohio Emergency Management Agency						
Public Assistance Grants	DR-1453-OH	97.036	-	-	1,208	-
Total U.S. Department of Homeland Security			-	-	1,208	-
Total Federal Awards Expenditures			724,552	51,229	719,067	51,229

See notes to Schedule of Federal Awards Expenditures.

**FORT FRYE LOCAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTES B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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**FORT FRYE LOCAL SCHOOL DISTRICT
WASHINGTON 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
MAY 5, 2005**