



**Auditor of State
Betty Montgomery**

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants Report	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	23
Statement of Fiduciary Net Assets - Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds.....	26
Notes to the Basic Financial Statements	27
Schedule of Federal Award Expenditures.....	55
Notes to the Schedule of Federal Awards Expenditures	57
Independent Accountants’ Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	59
Independent Accountants’ Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	61
Schedule of Findings	63
Schedule of Prior Audit Findings.....	66

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

March 23, 2005

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$1,013,666 which represents a 32.59 percent increase from 2003.
- General revenues accounted for \$17,652,819 in revenue or 79.22 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,631,193 or 20.78 percent of total revenues of \$22,284,012.
- The District had \$21,270,346 in expenses related to governmental activities; \$4,631,193 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The District has two major funds. They are the general fund and the bond retirement fund. The District's major governmental funds had \$18,777,869 in revenues and other financing sources and \$18,263,172 in expenditures and other financing uses. The fund balances of the major governmental funds increased from \$1,427,142 to \$1,941,839.
- The District has \$10,064,316 in capital assets at June 30, 2004. This amount is net of accumulated depreciation in the amount of \$13,330,835. Fiscal year 2004 depreciation expense was \$690,195. Total capital assets, net of related debt to acquire or construct the assets, were \$2,359,910 at June 30, 2004.
- The District has \$8,910,608 in long-term liabilities outstanding at June 30, 2004. Of this total, \$969,562 is due within one year and \$7,941,046 is due in more than one year.

Using this Financial Report

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reporting the District as a Whole

STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

FUND FINANCIAL STATEMENTS

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units, and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

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

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
Assets		
Current and other assets	\$ 13,227,859	\$ 12,487,713
Capital assets	10,064,316	10,498,886
<i>Total assets</i>	23,292,175	22,986,599
Liabilities		
Current liabilities	10,257,625	10,321,648
Long-term liabilities	8,910,608	9,554,675
<i>Total liabilities</i>	19,168,233	19,876,323
Net Assets		
Invested in capital assets, net of related debt	2,835,280	2,561,710
Restricted	1,581,865	1,520,504
Unrestricted	(293,203)	(971,938)
<i>Total net assets</i>	\$ 4,123,942	\$ 3,110,276

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$4,123,942.

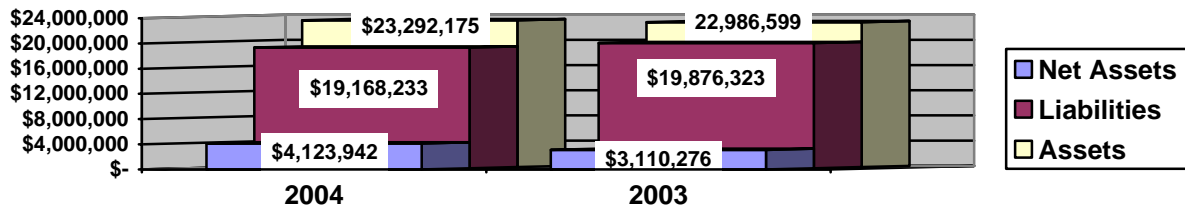
At year-end, capital assets represented 43.21 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,835,280. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

A portion of the District's net assets, \$1,581,865, represents resources that are subject to external restriction on how they may be used.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004 and 2003.

Change in Net Assets		
	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program revenues:		
Charges for services and sales	\$ 929,747	\$ 656,730
Operating grants and contributions	3,647,271	2,988,610
Capital grants and contributions	54,175	-
General revenues:		
Property taxes	8,554,923	8,068,663
Grants and entitlements	8,965,644	9,173,848
Investment earnings	43,305	79,648
Miscellaneous	88,947	99,136
<i>Total revenues</i>	<u>22,284,012</u>	<u>21,066,635</u>
Expenses		
Program expenses:		
Instruction:		
Regular	7,954,257	7,374,951
Special	2,475,176	2,668,260
Vocational	132,760	109,922
Other	1,235,349	873,141
Support services:		
Pupil	1,179,985	1,170,064
Instructional staff	1,172,281	1,362,499

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Change in Net Assets (Continued)		
	Governmental Activities 2004	Governmental Activities 2003
Board of education	20,125	21,456
Administration	1,628,733	1,681,676
Fiscal	492,139	427,693
Business	216,955	201,739
Operations and maintenance	1,929,637	1,910,063
Pupil transportation	598,899	655,744
Central	135,165	141,399
Food service operations	899,910	885,274
Operations of non-instructional services	48,482	100,302
Extracurricular activities	484,261	498,156
Intergovernmental-pass through	241,295	298,512
Interest and fiscal charges	424,937	468,224
<i>Total expenses</i>	21,270,346	20,849,075
<i>Increase in net assets</i>	\$ 1,013,666	\$ 217,560
<i>Ending net assets</i>	\$ 4,123,942	\$ 3,110,276

Governmental Activities

Net assets of the District's governmental activities increased \$1,013,666. Total governmental expenses of \$21,270,346 were offset by program revenues of \$4,631,193 and general revenues of \$17,652,819. Program revenues supported 21.77 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes. This revenue source accounts for 38.39 percent of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Seneca County in 2000, the District's tax valuation increased by 29.73 percent that year.

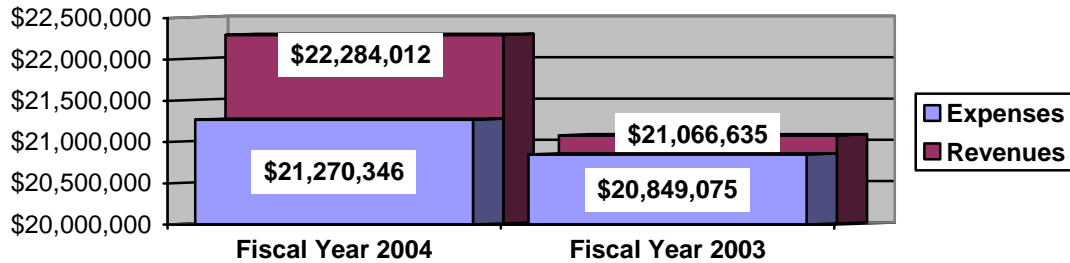
The District is funded on the state formula, but with dropping enrollment, state funding increases are modest. The only increase in state funding was through the parity aide monies. The District has a significant number of students leaving to go to neighboring districts through open-enrollment; this creates a net loss in state revenue of \$706,000. The District is working on various marketing techniques to advertise the great things happening in Fostoria City Schools to reverse this trend.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004 and 2003.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Program expenses				
Instruction:				
Regular	\$ 7,954,257	\$ 6,927,368	\$ 7,374,951	\$ 6,688,896
Special	2,475,176	1,763,679	2,668,260	1,984,797
Vocational	132,760	132,760	109,922	109,922
Other	1,235,349	1,167,212	873,141	803,926
Support services:				
Pupil	1,179,985	1,002,014	1,170,064	1,024,818
Instructional staff	1,172,281	40,004	1,362,499	860,097
Board of education	20,125	20,125	21,456	21,456
Administration	1,628,733	1,521,903	1,681,676	1,580,525
Fiscal	492,139	490,057	427,693	416,806
Business	216,955	216,580	201,739	201,739
Operations and maintenance	1,929,637	1,896,124	1,910,063	1,880,850
Pupil transportation	598,899	566,952	655,744	630,156
Central	135,165	111,073	141,399	122,082
Food service operations	899,910	47,465	885,274	47,748
Operations of non-instructional services	48,482	10,120	100,302	(2,002)
Extracurricular activities	484,261	361,596	498,156	366,399
Intergovernmental pass-through	241,295	(60,816)	298,512	(2,704)
Interest and fiscal charges	424,937	424,937	468,224	468,224
Total	\$ 21,270,346	\$ 16,639,153	\$ 20,849,075	\$ 17,203,735

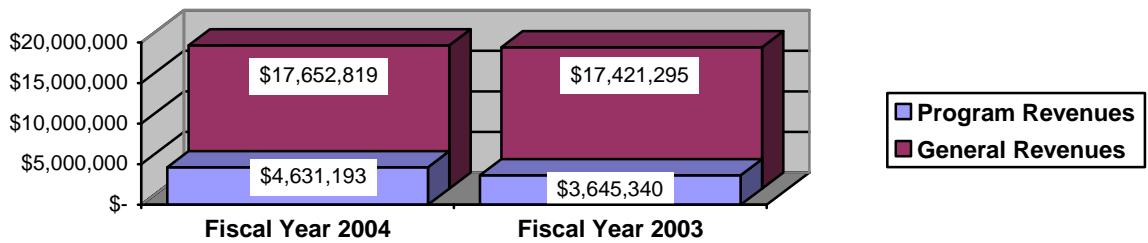
**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The dependence upon tax and other general revenues for governmental activities is apparent, 84.69 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.23 percent. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$2,742,250, which is higher than last year's total of \$2,034,359. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 1,137,585	\$ 508,518	\$ 629,067	123.71 %
Bond Retirement	804,254	918,624	(114,370)	(12.45) %
Other Governmental	800,411	607,217	193,194	31.82 %
Total	\$ 2,742,250	\$ 2,034,359	\$ 707,891	34.80 %

General Fund

During fiscal year 2004, the District's general fund balance increased by \$629,067, which can be attributed to increased local tax revenue during fiscal year 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	7,627,493	7,069,328	558,165	7.90 %
Tuition	279,530	8,245	271,285	3,290.30 %
Earnings on investments	42,843	77,760	(34,917)	(44.90) %
Intergovernmental	9,430,167	9,076,106	354,061	3.90 %
Gifts and donations	-	4,450	(4,450)	(100.00) %
Other revenues	174,701	179,265	(4,564)	(2.55) %
<i>Total</i>	<u>\$ 17,554,734</u>	<u>\$ 16,415,154</u>	<u>\$ 1,139,580</u>	6.94 %
Expenditures				
Instruction	\$ 10,075,851	\$ 9,188,470	\$ 887,381	9.66 %
Support services	6,329,993	6,235,154	94,839	1.52 %
Extracurricular activities	332,200	338,861	(6,661)	(1.97) %
Operation of non-instructional services	5,324	-	5,324	100.00 %
Facilities acquisition and construction	-	5,218	(5,218)	(100.00) %
Debt service	599,291	178,932	420,359	234.93 %
<i>Total</i>	<u>\$ 17,342,659</u>	<u>\$ 15,946,635</u>	<u>\$ 1,396,024</u>	8.75 %

Bond Retirement Fund

During fiscal year 2004, the District's bond retirement fund balance decreased by \$114,370. The table that follows assists in illustrating the financial activities of the bond retirement fund.

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	\$ 664,674	\$ 666,569	\$ (1,895)	(0.28) %
Intergovernmental	69,921	69,939	(18)	(0.03) %
<i>Total</i>	<u>\$ 734,595</u>	<u>\$ 736,508</u>	<u>\$ (1,913)</u>	(0.26) %
Expenditures				
Fiscal	16,673	14,040	2,633	18.75 %
Debt Service:				
Principal	590,000	553,000	37,000	6.69 %
Interest	275,832	298,575	(22,743)	(7.62) %
<i>Total</i>	<u>\$ 882,505</u>	<u>\$ 865,615</u>	<u>\$ 16,890</u>	1.95 %

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$17,563,942 were \$457,252 higher than the original budgeted revenues and other financing sources estimate of \$17,106,690. Actual revenues and other financing sources of \$18,086,841 were \$522,899 higher than the final budgeted amounts.

General fund actual expenditures plus other financing sources of \$18,188,394 were \$847,542 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$19,035,936 due to good planning and a tight control of overall expenditures. The original appropriations were \$18,324,936 which was \$711,000 less than the final appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$10,064,316 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2004	2003
Land	\$ 313,062	\$ 313,062
Land improvements	256,696	304,782
Buildings and improvements	8,798,533	9,181,353
Furniture and equipment	351,962	480,065
Vehicles	344,063	219,624
<i>Total</i>	\$ 10,064,316	\$ 10,498,886

Total additions to capital assets for 2004 were \$270,325, disposals totaled \$14,700 (net of accumulated depreciation) and depreciation expense was \$690,195.

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

Debt Administration

At June 30, 2004 the District had \$6,988,875 in general obligation bonds outstanding and \$260,531 in loans outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. Of this total, \$740,248 is due within one year and \$6,509,158 is due within greater than one year. The following table summarizes the bonds outstanding.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Outstanding Debt, at Year End		
	Governmental Activities 2004	Governmental Activities 2003
General obligation bonds:		
Middle school refinancing bonds	\$ 6,958,875	\$ 7,392,726
School bus bonds	30,000	60,000
Loans:		
H.B. 264 loan	114,158	142,697
Energy conservation loan	146,373	237,974
<i>Total</i>	\$ 7,249,406	\$ 7,833,397

At June 30, 2004, the District's overall legal debt margin was \$13,435,455 with an unvoted debt margin of \$218,001.

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

Current Financial Related Activities

Overall, the District remains financially viable. As the preceding information shows, the District depends upon local property taxes, primarily residential/agricultural class property. The District had an increase in property tax revenue in fiscal year 2004 due to the emergency tax levy passed in 2002. This additional tax revenue, along with the District's cash balance and staffing reductions, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the District is not without challenges.

The first challenge is the loss of state foundation revenues due to charge-offs for post secondary option and children attending neighboring schools through open enrollment. During fiscal year 2004 a local company had an error on their personal property tax return of \$300,000. This money had been certified to us from the County Auditor and had been included in our 5-Year Forecast. Once this revenue was no longer available the Board of Education once again reduced expenditures for the upcoming fiscal year 2005 school year. The Board is also placing a 9.63 levy on the August 2004 ballot to replace this lost income. If the levy is successful the Board has pledged to allow a 4.75 mill levy up for renewal in 2005 expire (roll-off) to avoid being on the ballot so often.

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended. The Ohio Coalition for Equity and Adequacy of School Funding filed a petition with the U.S. Supreme Court for permission to file an appeal. The District does not anticipate growth in state revenue, as in the ten years prior to the DeRolph decision, no state revenue growth was realized. From a legislative standpoint many decisions have been made that have a deteriorating effect on school revenues: the decision in past years to raise the charge off millage on the school foundation program to 23 mills from 20 mills; the decision to phase out the personal property tax; the decision to grant authority to the State Department of Taxation charging a fee to distribute rollback; homestead and personal property tax.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Contacting the District's Financial Management

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

This page intentionally left blank.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,495,123
Receivables:	
Taxes	8,972,556
Accounts	2,531
Intergovernmental	690,332
Prepayments	28,980
Materials and supplies inventory	38,337
Capital assets:	
Land	313,062
Depreciable capital assets, net	9,751,254
<i>Capital assets, net</i>	<u>10,064,316</u>
<i>Total assets</i>	<u>23,292,175</u>
 Liabilities:	
Accounts payable	57,988
Contracts payable	52,007
Accrued wages and benefits	1,546,427
Pension obligation payable	454,412
Intergovernmental payable	83,585
Deferred revenue	8,040,275
Accrued interest payable	22,931
Long-term liabilities:	
Due within one year	969,562
Due within more than one year	7,941,046
<i>Total liabilities</i>	<u>19,168,233</u>
 Net Assets:	
Invested in capital assets, net of related debt	2,835,280
Restricted for:	
Capital projects	285,975
Debt service	822,663
Other purposes	473,227
Unrestricted	(293,203)
<i>Total net assets</i>	<u><u>\$ 4,123,942</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses
Governmental activities:	
Instruction:	
Regular	\$ 7,954,257
Special	2,475,176
Vocational	132,760
Other	1,235,349
Support services:	
Pupil	1,179,985
Instructional staff	1,172,281
Board of education	20,125
Administration	1,628,733
Fiscal	492,139
Business	216,955
Operations and maintenance	1,929,637
Pupil transportation	598,899
Central	135,165
Operation of non-instructional services:	
Food service operations	899,910
Other non-instructional services	48,482
Extracurricular activities	484,261
Intergovernmental pass-through	241,295
Interest and fiscal charges	424,937
<i>Total governmental activities</i>	\$ 21,270,346

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 344,105	\$ 682,784	\$ -	\$ (6,927,368)
-	711,497	-	(1,763,679)
-	-	-	(132,760)
-	68,137	-	(1,167,212)
-	177,971	-	(1,002,014)
-	1,078,102	54,175	(40,004)
-	-	-	(20,125)
80,319	26,511	-	(1,521,903)
-	2,082	-	(490,057)
-	375	-	(216,580)
20,935	12,578	-	(1,896,124)
713	31,234	-	(566,952)
-	24,092	-	(111,073)
332,944	519,501	-	(47,465)
28,066	10,296	-	(10,120)
122,665	-	-	(361,596)
-	302,111	-	60,816
-	-	-	(424,937)
<u>\$ 929,747</u>	<u>\$ 3,647,271</u>	<u>\$ 54,175</u>	<u>(16,639,153)</u>

General Revenues:

Property taxes levied for:	
General purposes	7,615,044
Debt service.	660,604
Capital projects	279,275
Grants and entitlements not restricted to specific programs.	8,965,644
Investment earnings	43,305
Miscellaneous	88,947
<i>Total general revenues</i>	<u>17,652,819</u>
<i>Change in net assets</i>	1,013,666
Net assets at beginning of year	<u>3,110,276</u>
<i>Net assets at end of year</i>	<u>\$ 4,123,942</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,802,027	\$ 747,292	\$ 856,695	\$ 3,406,014
Receivables:				
Taxes	7,991,595	688,488	292,473	8,972,556
Accounts	1,365	-	1,166	2,531
Intergovernmental	12,092	-	678,240	690,332
Interfund loans	402,595	-	-	402,595
Prepayments	28,980	-	-	28,980
Materials and supplies inventory	27,951	-	10,386	38,337
Restricted assets:				
Equity in pooled cash and cash equivalents	89,109	-	-	89,109
<i>Total assets</i>	<u>\$ 10,355,714</u>	<u>\$ 1,435,780</u>	<u>\$ 1,838,960</u>	<u>\$ 13,630,454</u>
Liabilities:				
Accounts payable	\$ 51,005	\$ -	\$ 6,983	\$ 57,988
Contracts payable	-	-	52,007	52,007
Accrued wages and benefits	1,334,462	-	211,965	1,546,427
Compensated absences payable	123,315	-	-	123,315
Pension obligation payable	250,320	-	17,180	267,500
Intergovernmental payable	73,660	-	9,925	83,585
Interfund loan payable	-	-	402,595	402,595
Deferred revenue	7,385,367	631,526	337,894	8,354,787
<i>Total liabilities</i>	<u>9,218,129</u>	<u>631,526</u>	<u>1,038,549</u>	<u>10,888,204</u>
Fund Balances:				
Reserved for encumbrances	368,417	-	63,734	432,151
Reserved for materials and supplies inventory	27,951	-	10,386	38,337
Reserved for prepayments	28,980	-	-	28,980
Reserved for property tax unavailable for appropriation	606,228	56,962	22,823	686,013
Reserved for budget stabilization	89,109	-	-	89,109
Undesignated, reported in:				
General fund	16,900	-	-	16,900
Special revenue funds	-	-	461,765	461,765
Debt service fund	-	747,292	-	747,292
Capital projects funds	-	-	241,703	241,703
<i>Total fund balances</i>	<u>1,137,585</u>	<u>804,254</u>	<u>800,411</u>	<u>2,742,250</u>
<i>Total liabilities and fund balances</i>	<u>\$ 10,355,714</u>	<u>\$ 1,435,780</u>	<u>\$ 1,838,960</u>	<u>\$ 13,630,454</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 2,742,250
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,064,316
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 246,371	
Intergovernmental revenue	68,141	
		314,512
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,082,887	
Pension obligation payable	186,912	
General obligation bonds payable	6,988,875	
Energy conservation loans payable	260,531	
Capital lease obligation payable	455,000	
Accrued interest payable	22,931	
		(8,997,136)
<i>Net assets of governmental activities</i>		\$ 4,123,942

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,627,493	\$ 664,674	\$ 283,397	\$ 8,575,564
Tuition	279,530	-	28,066	307,596
Charges for services	713	-	332,944	333,657
Earnings on investments	42,843	-	462	43,305
Extracurricular	-	-	148,444	148,444
Classroom materials and fees	65,259	-	-	65,259
Other local revenues	95,563	-	55,009	150,572
Other revenue	13,166	-	-	13,166
Intergovernmental - State	9,344,991	69,921	1,177,929	10,592,841
Intergovernmental - Federal	85,176	-	1,949,601	2,034,777
<i>Total revenue</i>	<u>17,554,734</u>	<u>734,595</u>	<u>3,975,852</u>	<u>22,265,181</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,919,856	-	657,323	7,577,179
Special	1,840,358	-	641,646	2,482,004
Vocational	129,682	-	-	129,682
Other	1,185,955	-	49,686	1,235,641
Support services:				
Pupil	995,961	-	169,130	1,165,091
Instructional staff	695,914	-	459,096	1,155,010
Board of education	20,125	-	-	20,125
Administration	1,502,720	-	108,018	1,610,738
Fiscal	460,513	16,673	9,348	486,534
Business	214,334	-	500	214,834
Operations and maintenance	1,624,344	-	12,644	1,636,988
Pupil transportation	712,336	-	17,807	730,143
Central	103,746	-	22,945	126,691
Operation of non-instructional services:				
Food service operations	-	-	858,252	858,252
Other non-instructional services	5,324	-	39,410	44,734
Extracurricular activities	332,200	-	121,753	453,953
Intergovernmental pass-through	-	-	241,295	241,295
Facilities acquisition and construction	-	-	378,273	378,273
Debt service:				
Principal retirement	573,140	590,000	-	1,163,140
Interest and fiscal charges	26,151	275,832	-	301,983
<i>Total expenditures</i>	<u>17,342,659</u>	<u>882,505</u>	<u>3,787,126</u>	<u>22,012,290</u>
<i>Excess of revenues over (under) expenditures</i>	<u>212,075</u>	<u>(147,910)</u>	<u>188,726</u>	<u>252,891</u>

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):				
Transfers in	-	33,540	4,468	38,008
Transfers (out)	(38,008)	-	-	(38,008)
Proceeds of capital lease refinancing	455,000	-	-	455,000
<i>Total other financing sources (uses)</i>	<u>416,992</u>	<u>33,540</u>	<u>4,468</u>	<u>455,000</u>
Net change in fund balances	629,067	(114,370)	193,194	707,891
Fund balances at beginning of year	<u>508,518</u>	<u>918,624</u>	<u>607,217</u>	<u>2,034,359</u>
<i>Fund balances at end of year</i>	<u>\$ 1,137,585</u>	<u>\$ 804,254</u>	<u>\$ 800,411</u>	<u>\$ 2,742,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ 707,891

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$690,195) exceeds capital outlays (\$270,325) in the current period. (419,870)

The net effect of various miscellaneous transactions involving capital assets (i. e. , sales, disposals, trade-ins, and donations) is to decrease net assets. (14,700)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 18,831

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 1,163,140

Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (455,000)

Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. (122,954)

Some expenses reported on the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 136,328

Change in net assets of governmental activities \$ 1,013,666

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 7,138,229	\$ 7,548,682	\$ 7,547,224	\$ (1,458)
Tuition	264,382	281,432	279,530	(1,902)
Earnings on investments	40,521	42,100	42,843	743
Transportation fees	674	-	713	713
Classroom materials and fees	61,076	60,550	64,575	4,025
Other local revenues	90,384	79,285	95,563	16,278
Other revenues	12,453	15,500	13,166	(2,334)
Intergovernmental - State	8,827,980	8,828,851	9,333,791	504,940
Intergovernmental - Federal	79,717	85,000	84,284	(716)
<i>Total revenue</i>	<u>16,515,416</u>	<u>16,941,400</u>	<u>17,461,689</u>	<u>520,289</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,969,847	7,240,273	7,024,405	215,868
Special	1,870,344	1,942,913	1,953,624	(10,711)
Vocational	145,869	151,529	128,588	22,941
Adult/continuing education	4,446	4,618	6,268	(1,650)
Other	1,125,737	1,169,415	1,231,081	(61,666)
Support services:				
Pupil	1,076,152	1,117,906	1,014,796	103,110
Instructional staff	762,656	792,247	707,558	84,689
Board of education	20,938	21,750	20,842	908
Administration	1,570,532	1,631,468	1,520,731	110,737
Fiscal	420,937	437,269	455,491	(18,222)
Business	218,624	227,107	234,566	(7,459)
Operations and maintenance	1,648,224	1,712,174	1,679,526	32,648
Pupil transportation	738,870	767,538	725,878	41,660
Central	124,707	129,546	99,189	30,357
Operation of non-instructional services	5,776	6,000	5,324	676
Extracurricular activities	372,270	386,714	346,233	40,481
Facilities acquisition and construction	510	530	-	530
Debt service:				
Principal retirement	510,899	530,722	573,139	(42,417)
Interest and fiscal charges	23,312	24,217	26,152	(1,935)
<i>Total expenditures</i>	<u>17,610,650</u>	<u>18,293,936</u>	<u>17,753,391</u>	<u>540,545</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(1,095,234)</u>	<u>(1,352,536)</u>	<u>(291,702)</u>	<u>1,060,834</u>

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Refund of prior year expenditure	13,126	15,000	13,878	(1,122)
Proceeds of capital lease refinancing	430,343	453,000	455,000	2,000
Transfers (out)	(64,498)	(67,000)	(38,008)	28,992
Advances in	147,805	154,542	156,274	1,732
Advances (out)	(649,788)	(675,000)	(396,995)	278,005
<i>Total other financing sources (uses)</i>	<u>(123,012)</u>	<u>(119,458)</u>	<u>190,149</u>	<u>309,607</u>
<i>Net change in fund balance</i>	(1,218,246)	(1,471,994)	(101,553)	1,370,441
Fund balance at beginning of year	729,074	729,074	729,074	-
Prior year encumbrances appropriated	865,321	865,321	865,321	-
<i>Fund balance at end of year</i>	<u>\$ 376,149</u>	<u>\$ 122,401</u>	<u>\$ 1,492,842</u>	<u>\$ 1,370,441</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 98,396	\$ 45,017
Receivables:		
Accounts	-	88
<i>Total assets</i>	98,396	\$ 45,105
Liabilities:		
Due to students	-	\$ 45,105
<i>Total liabilities</i>	-	\$ 45,105
Net Assets:		
Held in trust for scholarships	98,396	
<i>Total net assets</i>	\$ 98,396	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,053
Gifts and contributions	125
	2,178
<i>Total additions</i>	<i>2,178</i>
Deductions:	
Scholarships awarded	7,550
	(5,372)
<i>Change in net assets</i>	<i>(5,372)</i>
Net assets at beginning of year	103,768
	98,396
<i>Net assets at end of year</i>	<i>\$ 98,396</i>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 238th largest in the State of Ohio (among 613 public school districts) in terms of enrollment. It is staffed by 125 non-certificated employees and 175 certificated full-time teaching personnel who provide services to 2,280 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of; (3) or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

Ohio School Plan

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Center

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

and taxing authority. Financial information can be obtained from Jay Valasek, Vanguard-Sentinel Career Center, 1306 Cedar Street, Fremont, Ohio 43420.

Northwestern Ohio Educational Research Council, Inc.

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

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six school districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consist of one elected representative of each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal officer). Members of the Board serve staggered two-year terms. The District paid \$173,670 during fiscal year 2004 for natural gas. Financial information is available from the Erie Ottawa Educational Service Center (fiscal agent), at 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

GOVERNMENTAL FUNDS

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Bond Retirement Fund - A fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation which is levied for debt charges on bonds or loans, shall be paid into this fund.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

The District's basic financial statements consist of government wide financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004. Prior to year-end, the District requested and received an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

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

F. Cash and Investments

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

During fiscal year 2004, investments were limited to investments in repurchase agreements and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Under existing Ohio statutes the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$42,843, which includes \$21,561 assigned from other funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

General capital assets are those related to government activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 25 years
Buildings and improvements	30 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, materials and supplies, prepayments, property taxes, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

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

O. Estimates

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

P. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set-aside to create a reserve for budget stabilization. See Note 17 for details.

Q. Interfund Activity

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information Systems	\$ 59
Disadvantaged Pupil Impact Aid	10,119
Summer Intervention	6,494
Preschool	8,028
Disability Access Grant	5,600

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

B. Compliance

The District did not certify funds as required by Ohio Revised Code § 5705.41(D).

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2 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 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

8. Under limited circumstances, corporate debt instruments 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the District's deposits was \$3,152,948 and the bank balance was \$3,516,236. Of the bank balance:

1. \$200,000 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$3,316,236 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. 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 FDIC.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered for securities 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 485,588	\$ 485,588
<i>Total investments</i>	\$ 485,588	\$ 485,588

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 3,638,536	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(485,588)	485,588
GASB Statement No. 3	\$ 3,152,948	\$ 485,588

5. INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Other Governmental funds from:	
General Fund	\$ 4,468
Transfer to Bond Retirement Major fund from:	
General fund	33,540

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B.** Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund financial statements:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	\$ 402,595

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

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, 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-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 Seneca, Hancock, and Wood County Treasurers collect property tax on behalf of the District and periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties 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.

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

The amount available as an advance at June 30, 2004 was \$606,228 in the general fund, \$56,962 in the bond retirement fund, and \$22,823 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$525,959 in the general fund, \$54,398 in the bond retirement fund, and \$21,567 in the permanent improvement fund.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and public utility real estate	\$ 111,791,220	51.26%	\$ 111,985,780	51.37%
Commercial/industrial real estate	42,602,610	19.54%	42,573,550	19.53%
Public utility personal	9,070,980	4.16%	8,982,870	4.12%
Tangible personal property	54,603,944	25.04%	54,458,644	24.98%
Total	\$ 218,068,754	100.00%	\$ 218,000,844	100.00%
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 50.55		\$ 50.55	
Debt Service	3.40		3.40	
Permanent Improvement	1.73		1.73	

7. RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), internal loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 8,972,556
Accounts	2,531
Intergovernmental	690,332
<i>Total</i>	<u>\$ 9,665,419</u>

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

8. CAPITAL ASSETS

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 313,062	\$ -	\$ -	\$ 313,062
<i>Total capital assets, not being depreciated</i>	313,062	-	-	313,062
Capital assets, being depreciated:				
Land improvements	1,299,321	27,536	-	1,326,857
Buildings and improvements	19,274,794	57,466	-	19,332,260
Furniture and equipment	1,373,253	5,942	(21,000)	1,358,195
Vehicles	885,396	179,381	-	1,064,777
<i>Total capital assets, being depreciated</i>	22,832,764	270,325	(21,000)	23,082,089
Less: accumulated depreciation:				
Land improvements	(994,539)	(75,622)	-	(1,070,161)
Buildings and improvements	(10,093,441)	(440,286)	-	(10,533,727)
Furniture and equipment	(893,188)	(119,345)	6,300	(1,006,233)
Vehicles	(665,772)	(54,942)	-	(720,714)
<i>Total accumulated depreciation</i>	(12,646,940)	(690,195)	6,300	(13,330,835)
<i>Governmental activities capital assets, net</i>	<u>\$ 10,498,886</u>	<u>\$ (419,870)</u>	<u>\$ (14,700)</u>	<u>\$ 10,064,316</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 432,809
Special	23,605
Vocational	3,078
Support Services:	
Pupil	5,078
Instructional staff	31,383
Administration	25,904
Fiscal	1,505
Operations and maintenance	35,338
Pupil transportation	56,526
Central	4,673
Extracurricular activities	29,711
Food service operations	40,585
<i>Total depreciation expense</i>	<u>\$ 690,195</u>

9. CAPITAL LEASES

In the current year, the District refinanced a lease for software equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the statement of net assets in the amount of \$455,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Interest payments in fiscal year 2004 totaled \$17,324 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30, 2004	Amount
2005	\$ 70,959
2006	75,484
2007	75,138
2008	74,713
2009	75,211
2010 - 2011	151,445
<i>Total</i>	522,950
Less: amount representing interest	(67,950)
<i>Present value of minimum lease payments</i>	\$ 455,000

10. COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for administrators, certified personnel and secretaries/fiscal services personnel and 230 days for classified. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and secretaries/fiscal services personnel, 58 days for certified employees and up to a maximum 60 days for administrators.

11. LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	Interest Rate	Balance at 07/01/03	Additions	Disposals	Balance at 06/30/04	Due in One Year
Middle school refinancing bonds	3.2-4.7%	\$ 7,392,726	\$ 126,149	\$ (560,000)	\$ 6,958,875	\$ 585,000
School bus bonds	5.5-6.1%	60,000	-	(30,000)	30,000	30,000
<i>Total general obligation bonds payable</i>		<u>7,452,726</u>	<u>126,149</u>	<u>(590,000)</u>	<u>6,988,875</u>	<u>615,000</u>
HB 264 lighting loan	4.80%	142,697	-	(28,539)	114,158	28,539
Energy conservation loan	5.50%	237,974	-	(91,601)	146,373	96,709
<i>Total loans payable</i>		<u>380,671</u>	<u>-</u>	<u>(120,140)</u>	<u>260,531</u>	<u>125,248</u>
Capital leases		453,000	455,000	(453,000)	455,000	59,000
Compensated absences payable		1,268,278	68,512	(130,588)	1,206,202	170,314
<i>Total other long-term obligations</i>		<u>1,721,278</u>	<u>523,512</u>	<u>(583,588)</u>	<u>1,661,202</u>	<u>229,314</u>
<i>Total</i>		<u>\$ 9,554,675</u>	<u>\$ 649,661</u>	<u>\$ (1,293,728)</u>	<u>\$ 8,910,608</u>	<u>\$ 969,562</u>

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

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$2,980,000. The interest rates on the current interest bonds range from 3.20 percent to 4.70 percent. The capital appreciation bonds mature on December 1, 2010 (effective interest 16.57 percent), December 1, 2011 (effective interest 16.52 percent), December 1, 2012 (effective interest 16.54 percent), and December 1, 2013 (effective interest 16.51 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2004 was \$413,505. A total of \$475,370 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2004.

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

The following is a schedule of activity for fiscal 2004 on the middle school refinancing general obligation bonds:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004
Current interest bonds	\$ 6,630,000	\$ -	\$ (560,000)	\$ 6,070,000
Capital appreciation bonds	762,726	126,149	-	888,875
<i>Total G.O. bonds</i>	<u>\$ 7,392,726</u>	<u>\$ 126,149</u>	<u>\$ (560,000)</u>	<u>\$ 6,958,875</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 585,000	\$ 250,273	\$ 835,273	\$ -	\$ -	\$ -
2006	600,000	226,865	826,865	-	-	-
2007	635,000	202,007	837,007	-	-	-
2008	660,000	175,618	835,618	-	-	-
2009	685,000	147,703	832,703	-	-	-
2010 - 2014	715,000	529,844	1,244,844	2,980,000	-	2,980,000
2015 - 2017	2,190,000	152,047	2,342,047	-	-	-
<i>Total</i>	<u>\$ 6,070,000</u>	<u>\$ 1,684,357</u>	<u>\$ 7,754,357</u>	<u>\$ 2,980,000</u>	<u>\$ -</u>	<u>\$ 2,980,000</u>

- C. On June 1, 2000, the District issued bonds in the amount of \$134,000 for the purpose of paying part of the costs of acquiring school buses, including financing charges in connection with the Ohio School Districts 2000 Bus Borrowing Program. The issuance of such bonds is pursuant to Chapter 133 of the Ohio Revised Code and Section 3327.08. The bonds were issued for a five-year period with final maturity on April 15, 2005. The bonds will be retired from the debt service fund.

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

Fiscal Year Ended	Principal	Interest	Total
2005	\$ 30,000	\$ 1,830	\$ 31,830
<i>Total</i>	<u>\$ 30,000</u>	<u>\$ 1,830</u>	<u>\$ 31,830</u>

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Fiscal Year Ending	Principal	Interest	Total
2005	\$ 125,248	\$ 12,237	\$ 137,485
2006	78,205	5,476	83,681
2007	28,539	2,740	31,279
2008	28,539	1,370	29,909
<i>Total</i>	<u>\$ 260,531</u>	<u>\$ 21,823</u>	<u>\$ 282,354</u>

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$13,435,455 (including available funds of \$804,254) and an unvoted debt margin of \$218,001.

12. RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted for the following insurance coverage:

Coverage provided by Ohio School Plan	
General Liability	
General Aggregate	\$ 3,000,000
Employee Benefit Liability	
Each Offence Limit	1,000,000
Aggregate	3,000,000
Employees' Liability and Stop Gap	
Liability	1,000,000
Educational Legal	
Aggregate	2,000,000
Auto Coverage	
Liability	1,000,000
Liability	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 insurance coverage from the prior fiscal year.

For fiscal year 2004, the District participated in the Ohio School Plan (the "Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. The medical plan is administered by Medical Mutual Insurance Company. The total monthly premium for medical is \$380.72 for single coverage and \$831.49 for family coverage. The District's portion of the monthly premium is \$342.65 for single coverage and \$748.34 for family coverage, which is paid out of the same fund that pays the salary for the employees. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$38.07 for single coverage and \$83.15 for family coverage, which is withheld from their biweekly payroll.

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

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

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the Program's selection criteria. The firm of Sheakley Uniserve provides administrative, cost control and actuarial services to the GRP.

13. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 plan members and beneficiaries. Authority to establish and

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$218,156, \$201,747, and \$439,098, respectively; 38.33 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$207,192 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The 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 and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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, or by calling (614) 227-4090.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,129,993, \$1,137,283, and \$1,398,931, respectively; 83.69 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$198,436 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$2,249 made by the District and \$9,193 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$86,923 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1,

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

1989, with less than 25 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 this fiscal year, 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 has been established at \$25,400. 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, 2004 were \$223.444 million 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 and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$155,230 during the 2004 fiscal year.

15. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Net Change in Fund Balance	General Fund
Budget basis	\$ (101,553)
Net adjustment for revenue accruals	93,045
Net adjustment for expenditure accruals	12,438
Net adjustment for other sources/uses	226,843
Adjustment for encumbrances	398,294
GAAP basis	\$ 629,067

16. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

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

17. STATUTORY RESERVES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ 85,074	\$ -	\$ 89,109
Current year set-aside requirement	312,350	312,350	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(472,290)</u>	<u>(637,876)</u>	<u>-</u>
Total	<u>\$ (74,866)</u>	<u>\$ (325,526)</u>	<u>\$ 89,109</u>
Balance carried forward to FY 2005	<u>\$ (74,886)</u>	<u>\$ -</u>	<u>\$ 89,109</u>

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

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	<u>\$ 89,109</u>
<i>Total restricted assets</i>	<u><u>\$ 89,109</u></u>

This page intentionally left blank.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Grant Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through Ohio Department of Education						
<u>Nutrition Cluster:</u>						
Food Donation	10.550			\$ 103,267		\$ 103,267
School Breakfast Program	10.553	05PU-2003	\$ 11,024		\$ 11,024	
		05PU-2004	66,133		66,133	
<i>Total School Breakfast Program</i>			<u>77,157</u>		<u>77,157</u>	
National School Lunch Program	10.555	LLP1-2003	793		793	
		LLP1-2004	8,659		8,659	
		LLP4-2003	64,751		64,751	
		LLP4-2004	310,733		310,733	
<i>Total - National School Lunch Program</i>			<u>384,936</u>		<u>384,936</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>462,093</u>	<u>103,267</u>	<u>462,093</u>	<u>103,267</u>
U.S. DEPARTMENT OF EDUCATION						
Passed Through Ohio Department of Education						
Adult Education - State Grant Program	84.002	ABS1-2003	46,236		46,236	
		ABS1-2003-C	14,323		14,323	
<i>Total - Adult Education - State Grant Program</i>			<u>60,559</u>		<u>60,559</u>	
Title I Grants to Local Educational Agencies	84.010	C1S1-2003	83,123		92,189	
		C1S1-2004	382,061		459,380	
<i>Total - Title I Grants to Local Educational Agencies</i>			<u>465,184</u>		<u>551,569</u>	
<u>Special Education Cluster:</u>						
Special Education - Grants to States	84.027	6BSF-2003-P	11,597		24,632	
		6BSF-2004	306,932		356,272	
<i>Total - Special Education Grants to States</i>			<u>318,529</u>		<u>380,904</u>	
Special Education - Preschool Grants	84.173	PGS1-2004	41,743		41,743	
		PGS1-2002			388	
<i>Total - Special Education Preschool Grants</i>			<u>41,743</u>		<u>42,131</u>	
Total Special Education Cluster			<u>360,272</u>		<u>423,035</u>	
Safe and Drug Free Schools and Communities - National Programs	84.184C	T4S1-2004	1,003		2,678	
Safe and Drug Free Schools and Communities - State Grants	84.186	DRS1-2003	969		4,762	
		DRS1-2004	5,802		17,891	
<i>Total - Safe and Drug Free Schools and Communities - State Grants</i>			<u>6,771</u>		<u>22,653</u>	
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2SP-2001			2,101	
Innovative Education Program Strategies	84.298	C2S1-2003	(2,575)		7,497	
		C2S1-2004	9,652		15,522	
<i>Total - Innovative Education Program Strategies</i>			<u>7,077</u>		<u>23,019</u>	
Technology Literacy Challenge Fund Grants	84.318	TJS1-2003			5,019	
		TJS1-2004	15,547		2,682	
<i>Total - Technology Literacy Challenge Fund Grants</i>			<u>15,547</u>		<u>7,701</u>	

(Continued)

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Grant Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Advanced Placement Program	84.330	AVS1-2003	650		650	
Comprehensive School Reform Demonstration	84.332	RFS2-2002			32,120	
		RFS3-2002			11,411	
		RFS2-2003	12,150		19,338	
		RFS3-2003	9,000		20,156	
<i>Total - Comprehensive School Reform Demonstrator</i>			<u>21,150</u>		<u>83,025</u>	
Improving Teacher Quality State Grants	84.367	TRS1-2003	(71,719)		13,676	
		TRS1-2004	159,937		128,220	
<i>Total - Improving Teacher Quality State Grants</i>			<u>88,218</u>		<u>141,896</u>	
Total U.S. Department of Education			<u>1,026,431</u>		<u>1,318,886</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program (Medicaid: Title XIX)	93.778		<u>70,988</u>		<u>70,988</u>	
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed Through Ohio Department of Education</i>						
Learn and Serve America School and Community Based Program	94.004	SVS1-2004	<u>3,000</u>		<u>1,215</u>	
Total Federal Awards Expenditures			<u><u>\$1,562,512</u></u>	<u><u>\$103,267</u></u>	<u><u>\$1,853,182</u></u>	<u><u>\$103,267</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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

NOTE D - NEGATIVE RECEIPTS

CFDA # 84.298 grant number C2S1-2003 includes a negative receipt of \$2,575 due to a transfer of \$6,851 to CFDA # 84.298 grant number C2S1-2004 due to carryover.

CFDA # 84.367 grant number TRS1-2003 includes a negative receipt of \$71,719 due to a transfer of \$89,997 to CFDA # 84.2367 grant number TRS1-2004 due to carryover.

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fostoria City School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 23, 2005, we reported other matters involving the internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated March 23, 2005, we reported other related matters.

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

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

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

Betty Montgomery
Auditor of State

March 23, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fostoria City 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 each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 23, 2005.

Internal Control Over Compliance

The management of the 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 the 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 a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 23, 2005.

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



Betty Montgomery
Auditor of State

March 23, 2005

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I CFDA #84.010 <u>Nutrition Cluster</u> 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?	No

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

FINDING NUMBER 2004-001

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant for the payment of the amount due. The Board of Education has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board of Education.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Board of Education may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Seventeen percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2004-001
(Continued)**

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board of Education.

To improve controls over disbursements, we recommend all District disbursements receive prior certification of the Treasurer and the Board of Education periodically review the expenditures made to ensure they are within the appropriations adopted by the Board of Education, certified by the Treasurer, and recorded against appropriations.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	ORC § 5705.41(D) Proper expenditure certification	No	Not corrected. Repeated as finding number 2004-001.
2003-002	ORC § 5705.10 Negative cash balances	No	Partially corrected. Reported as a management letter comment.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**