



**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County, Ohio, as of June 30, 2005, 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.

As described in Note 3 to the financial statements, during fiscal year 2005 the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-2, "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by 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

May 24, 2006

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

- In total, net assets of governmental activities increased \$2,240,526 which represents a 54.33% increase from 2004.
- General revenues accounted for \$18,912,164 in revenue or 77.79% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,399,472 or 22.21% of all revenues.
- The District had \$22,071,110 in expenses related to governmental activities; \$5,399,472 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The General fund, the District's only major governmental fund had \$18,571,660 in revenues and \$17,006,402 in expenditures. The fund balances of the general fund increased from \$972,192 to \$2,537,450.
- The District has \$9,612,351 in capital assets at June 30, 2005. This amount is net of accumulated depreciation in the amount of \$13,890,140. Fiscal year 2005 depreciation expense was \$648,359. Total capital assets, net of related debt to acquire or construct the assets, were \$2,560,176 at June 30, 2005.
- The District has \$8,140,792 in long-term liabilities outstanding at June 30, 2005. Of this total, \$827,735 is due within one year and \$7,313,057 is due in more than one year.

Using this Financial Report

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Statement of Net Assets and the Statement of Activities

Reporting the District as a Whole

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting 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 financial assets, 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 fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 17,779,868	\$ 13,227,859
Capital assets	<u>9,612,351</u>	<u>10,064,316</u>
Total assets	<u>27,392,219</u>	<u>23,292,175</u>
<u>Liabilities</u>		
Current liabilities	12,886,959	10,257,625
Long-term liabilities	<u>8,140,792</u>	<u>8,910,608</u>
Total liabilities	<u>21,027,751</u>	<u>19,168,233</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,560,176	2,835,280
Restricted	1,516,970	1,581,865
Unrestricted	<u>2,287,322</u>	<u>(293,203)</u>
Total net assets	<u>\$ 6,364,468</u>	<u>\$ 4,123,942</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,364,468.

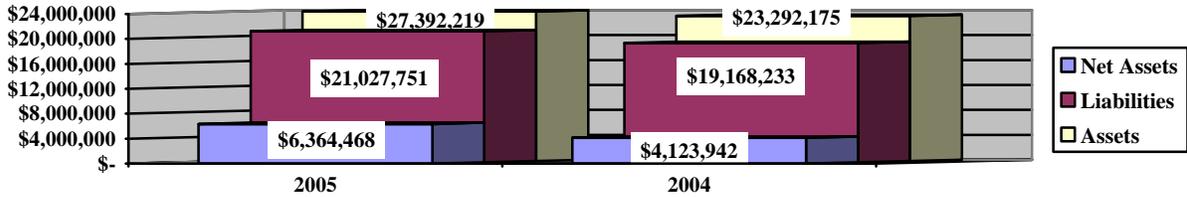
At year-end, capital assets represented 35.09% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,560,176. These capital assets are used 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, 2005
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(Continued)**

A portion of the District's net assets, \$1,516,970, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,287,322 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 884,931	\$ 929,747
Operating grants and contributions	4,514,541	3,647,271
Capital grants and contributions		54,175
General revenues:		
Property taxes	9,598,789	8,554,923
Grants and entitlements	8,893,564	8,965,644
Investment earnings	126,924	43,305
Other	292,887	88,947
Total revenues	<u>24,311,636</u>	<u>22,284,012</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,478,463	\$ 7,954,257
Special	2,487,326	2,475,176
Vocational	127,543	132,760
Other	1,416,060	1,235,349
Support services:		
Pupil	838,524	1,179,985
Instructional staff	1,224,469	1,172,281
Board of education	23,056	20,125
Administration	1,568,633	1,628,733
Fiscal	480,422	492,139
Business	274,530	216,955
Operations and maintenance	3,089,434	1,929,637
Pupil transportation	610,137	598,899
Central	123,654	135,165
Food service operations	990,519	899,910
Operations of non-instructional services	146,956	48,482
Extracurricular activities	422,981	484,261
Intergovernmental-pass through	350,815	241,295
Interest and fiscal charges	<u>417,588</u>	<u>424,937</u>
 Total expenses	 <u>22,071,110</u>	 <u>21,270,346</u>
 Increase in net assets	 <u>\$ 2,240,526</u>	 <u>\$ 1,013,666</u>

Governmental Activities

Net assets of the District's governmental activities increased \$2,240,526. Total governmental expenses of \$22,071,110 were offset by program revenues of \$5,399,472, and general revenues of \$18,912,164. Program revenues supported 24.46% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes. This revenue source accounts for 39.48% 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% that year.

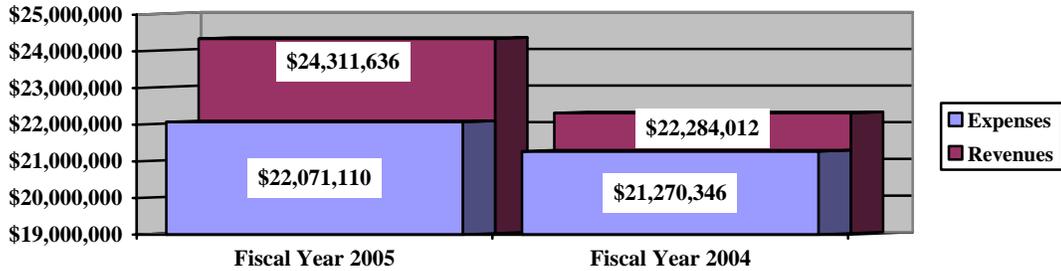
Voters approved a 9.63 mill emergency operating levy in August, 2004. The District began collection on the first ½ of this levy which will generate approximately \$2,100,000 per year for 5 years.

**FOSTORIA CITY SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

The District's financial condition has been declining in recent years, primarily due to dropping enrollment. 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 2005 and 2004.

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.

**FOSTORIA CITY SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

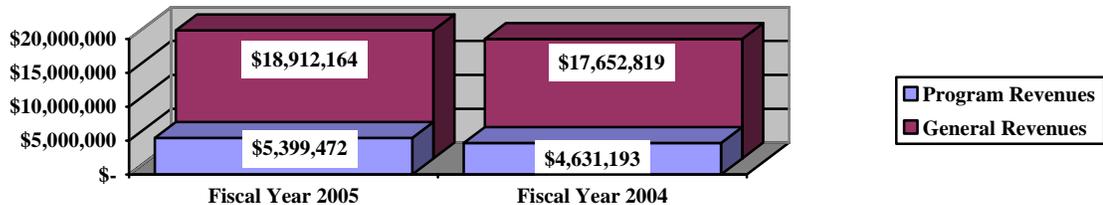
Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 7,478,463	\$ 6,349,171	\$ 7,954,257	\$ 6,927,368
Special	2,487,326	1,838,967	2,475,176	1,763,679
Vocational	127,543	127,543	132,760	132,760
Other	1,416,060	1,365,541	1,235,349	1,167,212
Support services:				
Pupil	838,524	698,429	1,179,985	1,002,014
Instructional staff	1,224,469	(430,280)	1,172,281	40,004
Board of education	23,056	23,056	20,125	20,125
Administration	1,568,633	1,471,406	1,628,733	1,521,903
Fiscal	480,422	471,057	492,139	490,057
Business	274,530	274,530	216,955	216,580
Operations and maintenance	3,089,434	3,072,740	1,929,637	1,896,124
Pupil transportation	610,137	533,981	598,899	566,952
Central	123,654	59,216	135,165	111,073
Food service operations	990,519	13,088	899,910	47,465
Operations of non-instructional services	146,956	21,796	48,482	10,120
Extracurricular activities	422,981	318,950	484,261	361,596
Intergovernmental pass-through	350,815	44,859	241,295	(60,816)
Interest and fiscal charges	<u>417,588</u>	<u>417,588</u>	<u>424,937</u>	<u>424,937</u>
Total	<u>\$22,071,110</u>	<u>\$16,671,638</u>	<u>\$21,270,346</u>	<u>\$16,639,153</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 84.12% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.54%. 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 2005 and 2004.

Governmental Activities - General and Program Revenues



**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$3,597,793, which is higher than last year's total of \$2,555,338. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 2,537,450	\$ 972,192	\$ 1,565,258	161.00 %
Other Governmental	<u>1,060,343</u>	<u>1,583,146</u>	<u>(522,803)</u>	(33.02) %
Total	<u>\$ 3,597,793</u>	<u>\$ 2,555,338</u>	<u>\$ 1,042,455</u>	40.80 %

General Fund

During fiscal year 2005, the District's general fund balance increased by \$1,565,258, which can be attributed to increased local tax revenue during fiscal year 2005. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 8,081,621	\$ 7,627,493	\$ 454,128	5.95 %
Tuition	288,038	279,530	8,508	3.04 %
Earnings on investments	112,313	42,843	69,470	162.15 %
Intergovernmental	9,947,061	9,430,167	516,894	5.48 %
Other revenues	<u>142,627</u>	<u>174,701</u>	<u>(32,074)</u>	(18.36) %
Total	<u>\$18,571,660</u>	<u>\$17,554,734</u>	<u>\$ 1,016,926</u>	5.79 %
<u>Expenditures</u>				
Instruction	\$ 9,480,100	\$ 10,075,851	\$ (595,751)	(5.91) %
Support services	7,008,374	6,329,993	678,381	10.72 %
Extracurricular activities	265,032	332,200	(67,168)	(20.22) %
Operation of non-instructional services	25,129	5,324	19,805	371.99 %
Debt service	<u>205,720</u>	<u>599,291</u>	<u>(393,571)</u>	(65.67) %
Total	<u>\$16,984,355</u>	<u>\$17,342,659</u>	<u>\$ (358,304)</u>	(2.07) %

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

During the course of fiscal year 2005, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$21,295,902 were \$3,962,838 higher than the original budgeted revenues estimate of \$17,333,064. Voters approved a 9.63 mill emergency operating levy in August, 2004. The District began collection on the first ½ of this levy which will generate approximately \$2,100,000 per year for 5 years. The only increase in State Funding was through the Parity Aide monies. Actual revenues and other financing sources of \$19,625,913 were \$1,669,989 lower than the final budgeted amounts.

General fund actual expenditures plus other financing sources of \$17,814,860 were \$1,004,918 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$18,819,778 due to good planning and a tight control of overall expenditures. The original appropriations were \$17,251,802 which was \$1,567,976 less than the final appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$9,612,351 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 313,062	\$ 313,062
Land improvements	247,699	256,696
Buildings and improvements	8,360,151	8,798,533
Furniture and equipment	273,648	351,962
Vehicles	417,791	344,063
Total	\$ 9,612,351	\$ 10,064,316

Total additions to capital assets for 2005 were \$206,290 and depreciation expense was \$648,359.

Debt Administration

At June 30, 2005 the District had \$6,520,890 in general obligation bonds outstanding and \$135,283 in loans outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. Of this total, \$678,205 is due within one year and \$5,977,968 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, 2005
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(Continued)**

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>General obligation bonds:</u>		
Middle school refinancing bonds	\$ 6,520,890	\$ 6,958,875
School bus bonds		30,000
<u>Loans:</u>		
H.B. 264 loan	85,617	114,158
Energy conservation loan	<u>49,666</u>	<u>146,373</u>
Total	<u>\$ 6,656,173</u>	<u>\$ 7,249,406</u>

At June 30, 2005, the District's overall legal debt margin was \$13,352,371 with an unvoted debt margin of \$213,894.

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 2005 due to collection of the first half of the 9.63mill emergency tax levy passed in 2004. This additional tax revenue, along with the District's cash balance and staffing reductions, provided the District with the necessary funds to meet its operating expenses in fiscal year 2005. As part of the levy campaign the Board of Education pledged to allow a 4.75 mill levy up for renewal in 2005 to expire (roll-off) if the voters passed the 9.63 mill emergency tax levy. The 4.75mill roll-off will put the school district at the 20mill floor for purposes of the residential/agricultural re-appraisals. Even with the passage of this important levy the school district faces many financial 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. Fostoria City School District is currently in the third year of District Improvement. If the District is unable to reach Adequate Yearly Progress (AYP) there is the potential for funding impact with our federal funds and also increased costs for mandatory bussing of students to neighboring districts.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(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 44830-1513.

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**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,768,841
Investments	
Receivables:	
Taxes	11,195,734
Accounts	7,856
Intergovernmental	731,684
Accrued interest	10,480
Internal loans.	
Prepayments	29,618
Materials and supplies inventory	35,655
Unamortized bond issue costs	
Capital assets:	
Land	313,062
Depreciable capital assets, net	9,299,289
Capital assets, net.	9,612,351
Total assets.	27,392,219
Liabilities:	
Accounts payable.	463,460
Contracts payable.	
Accrued wages and benefits	1,466,860
Pension obligation payable.	405,257
Intergovernmental payable	94,821
Deferred revenue	9,721,051
Accrued interest payable	19,980
Notes payable	715,530
Long-term liabilities:	
Due within one year.	827,735
Due within more than one year	7,313,057
Total liabilities	21,027,751
Net Assets:	
Invested in capital assets, net of related debt.	2,560,176
Restricted for:	
Capital projects	381,486
Debt service.	656,492
Other purposes	478,992
Unrestricted.	2,287,322
Total net assets	\$ 6,364,468

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 7,478,463	\$ 333,520	\$ 795,772	\$ (6,349,171)
Special	2,487,326		648,359	(1,838,967)
Vocational	127,543			(127,543)
Other	1,416,060		50,519	(1,365,541)
Support services:				
Pupil	838,524	1,540	138,555	(698,429)
Instructional staff	1,224,469		1,654,749	430,280
Board of education	23,056			(23,056)
Administration	1,568,633	73,532	23,695	(1,471,406)
Fiscal	480,422		9,365	(471,057)
Business	274,530			(274,530)
Operations and maintenance	3,089,434	8,131	8,563	(3,072,740)
Pupil transportation	610,137		76,156	(533,981)
Central	123,654		64,438	(59,216)
Operation of non-instructional services:				
Food service operations	990,519	334,373	643,058	(13,088)
Other non-instructional services	146,956	29,804	95,356	(21,796)
Extracurricular activities	422,981	104,031		(318,950)
Intergovernmental pass-through	350,815		305,956	(44,859)
Interest and fiscal charges	417,588			(417,588)
Total governmental activities	\$ 22,071,110	\$ 884,931	\$ 4,514,541	(16,671,638)
General Revenues:				
Property taxes levied for:				
General purposes				8,642,938
Debt service				672,850
Capital projects				283,001
Grants and entitlements not restricted to specific programs				
Investment earnings				8,893,564
Miscellaneous				126,924
				<u>292,887</u>
Total general revenues				<u>18,912,164</u>
Change in net assets				2,240,526
Net assets at beginning of year				<u>4,123,942</u>
Net assets at end of year				<u>\$ 6,364,468</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,987,359	\$ 1,650,915	\$ 5,638,274
Receivables:			
Taxes	10,182,748	1,012,986	11,195,734
Accounts	7,856		7,856
Intergovernmental	12,092	719,592	731,684
Accrued interest	10,480		10,480
Interfund loans	467,427		467,427
Prepayments	29,618		29,618
Materials and supplies inventory	30,577	5,078	35,655
Restricted assets:			
Equity in pooled cash and cash equivalents	130,567		130,567
Total assets	\$ 14,858,724	\$ 3,388,571	\$ 18,247,295
Liabilities:			
Accounts payable	\$ 218,783	\$ 244,677	\$ 463,460
Accrued wages and benefits	1,251,978	214,882	1,466,860
Compensated absences payable	47,664		47,664
Pension obligation payable	371,744	33,513	405,257
Intergovernmental payable	78,158	16,663	94,821
Interfund loan payable		467,427	467,427
Deferred revenue	9,637,417	1,351,066	10,988,483
Notes payable	715,530		715,530
Total liabilities	12,321,274	2,328,228	14,649,502
Fund Balances:			
Reserved for encumbrances	203,467	51,362	254,829
Reserved for materials and supplies inventory	30,577	5,078	35,655
Reserved for prepayments	29,618		29,618
Reserved for property tax unavailable for appropriation	555,811	60,390	616,201
Reserved for budget stabilization	89,109		89,109
Reserved for textbooks	41,458		41,458
Undesignated, reported in:			
General fund	1,587,410		1,587,410
Special revenue funds		31,474	31,474
Debt service fund		578,984	578,984
Capital projects funds		333,055	333,055
Total fund balances	2,537,450	1,060,343	3,597,793
Total liabilities and fund balances	\$ 14,858,724	\$ 3,388,571	\$ 18,247,295

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, 2005

Total governmental fund balances		\$	3,597,793
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			9,612,351
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	858,482	
Intergovernmental revenue		398,470	
Accrued interest		10,480	
Total			1,267,432
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(19,980)
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		(1,040,955)	
General obligation bonds payable		(6,520,890)	
Energy conservation loans payable		(135,283)	
Capital lease obligation payable		(396,000)	
Total			(8,093,128)
Net assets of governmental activities		\$	6,364,468

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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 8,081,621	\$ 905,057	\$ 8,986,678
Tuition.	288,038	29,804	317,842
Charges for services.		334,373	334,373
Earnings on investments.	112,313	4,131	116,444
Extracurricular.		121,743	121,743
Classroom materials and fees.	45,482		45,482
Other local revenues.	84,848	68,543	153,391
Other revenue	12,297	204,987	217,284
Intergovernmental - State.	9,784,462	1,198,247	10,982,709
Intergovernmental - Federal	162,599	1,920,171	2,082,770
Total revenue	<u>18,571,660</u>	<u>4,787,056</u>	<u>23,358,716</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,167,178	878,509	7,045,687
Special.	1,825,528	655,481	2,481,009
Vocational.	124,539		124,539
Other.	1,362,855	53,205	1,416,060
Support services:			
Pupil.	777,605	120,080	897,685
Instructional staff	647,154	555,728	1,202,882
Board of education	23,056		23,056
Administration.	1,431,118	112,982	1,544,100
Fiscal	453,745	31,678	485,423
Business	274,530		274,530
Operations and maintenance.	2,686,801	9,876	2,696,677
Pupil transportation	669,527	13,823	683,350
Central.	44,838	78,438	123,276
Operation of non-instructional services:			
Food service operations		954,604	954,604
Other non-instructional services	25,129	115,574	140,703
Extracurricular activities.	265,032	138,074	403,106
Intergovernmental pass-through		350,815	350,815
Facilities acquisition and construction		395,987	395,987
Debt service:			
Principal retirement	184,248	615,000	799,248
Interest and fiscal charges	21,472	252,052	273,524
Total expenditures	<u>16,984,355</u>	<u>5,331,906</u>	<u>22,316,261</u>
Excess of revenues over (under) expenditures	<u>1,587,305</u>	<u>(544,850)</u>	<u>1,042,455</u>
Other financing sources (uses):			
Transfers in		25,366	25,366
Transfers (out).	(22,047)	(3,319)	(25,366)
Total other financing sources (uses)	<u>(22,047)</u>	<u>22,047</u>	
Net change in fund balances	1,565,258	(522,803)	1,042,455
Fund balances at beginning of year (restated) .	972,192	1,583,146	2,555,338
Fund balances at end of year.	<u>\$ 2,537,450</u>	<u>\$ 1,060,343</u>	<u>\$ 3,597,793</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, 2005

Net change in fund balances - total governmental funds \$ 1,042,455

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

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

Capital asset additions	\$ 206,290	
Current year depreciation	(648,359)	
Total		(442,069)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (9,896)

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

Taxes	612,111	
Intergovernmental revenue	330,329	
Accrued interest	10,480	
Total		952,920

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. 799,248

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

Accrued interest	2,951	
Accreted interest on capital appreciation bonds	(147,015)	
Total		(144,064)

Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 41,932

Change in net assets of governmental activities \$ 2,240,526

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues:				
From local sources:				
Taxes	\$ 6,849,625	\$ 8,415,647	\$ 8,132,038	\$ (283,609)
Tuition.	233,496	286,880	288,038	1,158
Earnings on investments.	81,473	100,100	118,826	18,726
Classroom materials and fees	49,283	60,550	45,985	(14,565)
Other local revenues.	64,531	79,285	77,854	(1,431)
Other revenues	12,616	15,500	12,297	(3,203)
Intergovernmental - State.	7,498,554	9,212,940	9,731,962	519,022
Intergovernmental - Federal	122,087	150,000	162,599	12,599
Total revenue	<u>14,911,665</u>	<u>18,320,902</u>	<u>18,569,599</u>	<u>248,697</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,111,831	9,939,985	6,317,604	3,622,381
Special.	1,432,391	1,562,578	1,859,270	(296,692)
Vocational.	103,108	112,479	135,335	(22,856)
Adult/continuing education	6,324	6,899	5,601	1,298
Other.	1,270,456	1,385,925	1,403,402	(17,477)
Support services:				
Pupil.	644,713	703,309	822,176	(118,867)
Instructional staff	497,870	543,120	659,337	(116,217)
Board of education	21,379	23,322	23,260	62
Administration.	1,038,247	1,132,611	1,451,617	(319,006)
Fiscal	377,097	411,370	470,636	(59,266)
Business	219,414	239,356	275,809	(36,453)
Operations and maintenance.	1,303,120	1,421,557	2,078,480	(656,923)
Pupil transportation	463,754	505,903	626,304	(120,401)
Central.	85,515	93,287	50,686	42,601
Operation of non-instructional services	24,773	27,025	24,147	2,878
Extracurricular activities.	274,388	299,327	268,283	31,044
Debt service:				
Principal retirement	283,256	309,000	184,247	124,753
Interest and fiscal charges.	28,321	30,895	21,472	9,423
Total expenditures	<u>17,185,957</u>	<u>18,747,948</u>	<u>16,677,666</u>	<u>2,070,282</u>
Excess of revenues over (under) expenditures.	<u>(2,274,292)</u>	<u>(427,046)</u>	<u>1,891,933</u>	<u>2,318,979</u>
Other financing sources (uses):				
Refund of prior year expenditure	12,209	15,000	6,000	(9,000)
Sale of notes	1,627,831	2,000,000		(2,000,000)
Transfers in	406,958	500,000	503,319	3,319
Transfers (out)	(29,178)	(31,830)	(525,367)	(493,537)
Advances in.	374,401	460,000	546,995	86,995
Advances (out)	(36,667)	(40,000)	(611,827)	(571,827)
Total other financing sources (uses)	<u>2,355,554</u>	<u>2,903,170</u>	<u>(80,880)</u>	<u>(2,984,050)</u>
Net change in fund balance	81,262	2,476,124	1,811,053	(665,071)
Fund balance at beginning of year	1,492,842	1,492,842	1,492,842	
Prior year encumbrances appropriated	398,294	398,294	398,294	
Fund balance at end of year.	<u>\$ 1,972,398</u>	<u>\$ 4,367,260</u>	<u>\$ 3,702,189</u>	<u>\$ (665,071)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 95,323	\$ 40,677
	<u>95,323</u>	<u>40,677</u>
Total assets.	<u>95,323</u>	<u>\$ 40,677</u>
Liabilities:		
Accounts payable.		\$ 1,098
Due to students		39,579
		<u>40,677</u>
Total liabilities		<u>\$ 40,677</u>
Net Assets:		
Held in trust for scholarships	<u>95,323</u>	
Total net assets	<u>\$ 95,323</u>	

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, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,926
Total additions.	2,926
Deductions:	
Scholarships awarded	5,999
Change in net assets	(3,073)
Net assets at beginning of year	98,396
Net assets at end of year.	\$ 95,323

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 233rd largest in the State of Ohio (among 614 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 2,304 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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:

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 13.C. for further information on this group rating plan.

Ohio School Plan

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Vanguard-Sentinel Career Center

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

Northwestern Ohio Educational Research Council, Inc.

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

Northwest Ohio Special Educational Regional Resource Center

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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 \$132,473 during fiscal year 2005 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 any proprietary funds.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

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

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

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

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

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

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

D. Basis of Accounting

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

E. Budgets

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

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

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

6. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts on the statements of budgetary comparisons represent the final appropriation amounts passed by the Board during the year.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to repurchase agreements, the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

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 2005 amounted to \$112,313, which includes \$38,963 assigned from other funds.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

G. Inventory

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

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

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

H. Capital Assets

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

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

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

L. Fund Reserves

The District reserves those portions of the 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 balances are reserved for encumbrances, materials and supplies, inventory, prepayments, property tax advance unavailable for appropriation, textbooks, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

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

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund Balances, June 30, 2004	\$ 1,137,585	\$ 1,604,665	\$ 2,742,250
Adjustment for GASB Technical Bulletin 2004-002	(165,393)	(21,519)	(186,912)
Restated Fund Balances, June 30, 2005	\$ 972,192	\$ 1,583,146	\$ 2,555,338

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information Systems	\$ 92
Public School Preschool	56
Ohio Reads	1,413
Summer Intervention	1,244
Preschool	12,971
Disability Access Grant	5,600
Adult Basic Education	21,461
Title VI-B	16,160
Title III	1,810
Title I	52,088
Reducing Class Size	5,472

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$2,707,244, exclusive of the \$249,006 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,162,059 of the District's bank balance of \$2,362,059 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
Repurchase Agreement	\$ 249,006	\$ 249,006	\$ -	\$ -	\$ -
STAR Ohio	961,816	961,816			
FHLMC	990,759	248,100	494,924	247,735	
FHLB	248,672			248,672	
FNMA	747,344	247,812	-	-	499,532
	<u>\$ 3,197,597</u>	<u>\$ 1,706,734</u>	<u>\$ 494,924</u>	<u>\$ 496,407</u>	<u>\$ 499,532</u>

The weighted average maturity of investments is .70 years.

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 249,006	7.80
STAR Ohio	961,816	30.04
FHLMC	990,759	30.99
FHLB	248,672	7.79
FNMA	747,344	23.38
	<u>\$ 3,197,597</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,707,244
Investments	<u>3,197,597</u>
Total	<u>\$ 5,904,841</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,768,841
Private-purpose trust funds	95,323
Agency funds	<u>40,677</u>
Total	<u>\$ 5,904,841</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 22,047
Nonmajor Governmental funds	3,319

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

B. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Government Funds	\$ 467,427

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.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

The Seneca, Hancock and Wood County Treasurers collect property tax on behalf of the District and periodically advance, to the District, its portion of the taxes collected. Second-half property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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, 2005, was \$555,811 in the general fund, \$43,800 in the bond retirement fund, and \$16,590 in the permanent improvement fund. This amount has been recorded as 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.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 111,985,780	51.37	\$ 117,090,990	54.80
Commercial/industrial real estate	42,573,550	19.53	43,126,350	20.10
Public Utility Personal	8,982,870	4.12	8,918,070	4.20
Tangible Personal Property	<u>54,458,644</u>	<u>24.98</u>	<u>44,758,777</u>	<u>20.90</u>
Total	<u>\$ 218,000,844</u>	<u>100.00</u>	<u>\$ 213,894,187</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 50.55		\$ 60.18	
Debt Service	3.40		3.40	
Permanent Improvement	1.73		1.73	

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 11,195,734
Accounts	7,856
Accrued interest	10,480
Intergovernmental	<u>731,684</u>
Total	<u>\$ 11,945,754</u>

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 313,062	\$ -	\$ -	\$ 313,062
Total capital assets, not being depreciated	<u>313,062</u>	<u>-</u>	<u>-</u>	<u>313,062</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,326,857	44,060		1,370,917
Buildings and improvements	19,332,260			19,332,260
Furniture and equipment	1,358,195	22,830		1,381,025
Vehicles	<u>1,064,777</u>	<u>139,400</u>	<u>(98,950)</u>	<u>1,105,227</u>
Total capital assets, being depreciated	<u>23,082,089</u>	<u>206,290</u>	<u>(98,950)</u>	<u>23,189,429</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,070,161)	(53,057)		(1,123,218)
Buildings and improvements	(10,533,727)	(438,382)		(10,972,109)
Furniture and equipment	(1,006,233)	(101,144)		(1,107,377)
Vehicles	<u>(720,714)</u>	<u>(55,776)</u>	<u>89,054</u>	<u>(687,436)</u>
Total accumulated depreciation	<u>(13,330,835)</u>	<u>(648,359)</u>	<u>89,054</u>	<u>(13,890,140)</u>
Governmental activities capital assets, net	<u>\$ 10,064,316</u>	<u>\$ (442,069)</u>	<u>\$ (9,896)</u>	<u>\$ 9,612,351</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 412,078
Special	20,495
Vocational	3,004
<u>Support Services:</u>	
Pupil	4,656
Instructional staff	29,635
Administration	24,589
Fiscal	1,526
Operations and maintenance	31,526
Pupil transportation	56,796
Central	4,739
Extracurricular activities	39,440
Food service operations	<u>19,875</u>
Total depreciation expense	<u>\$ 648,359</u>

NOTE 9 - CAPITAL LEASES

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

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 2005 totaled \$11,959 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, 2005.

<u>Fiscal Year Ending June 30, 2005</u>	<u>Amount</u>
2006	\$ 75,484
2007	75,138
2008	74,713
2009	75,211
2010	75,591
2011	<u>75,854</u>
Total	451,991
Less: amount representing interest	<u>(55,991)</u>
Present value of minimum lease payments	<u>\$ 396,000</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn ten to twenty 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 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and certified employees and up to a maximum 60 days for administrators.

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance at June 30, 2004	Additions	Disposals	Balance at June 30, 2005	Due in One Year
Middle school refinancing bonds	3.2-4.7%	\$ 6,958,875	\$ 147,015	\$ (585,000)	\$ 6,520,890	\$ 600,000
School bus bonds	5.5-6.1%	<u>30,000</u>	-	<u>(30,000)</u>	-	-
Total general obligation bonds payable		<u>6,988,875</u>	<u>147,015</u>	<u>(615,000)</u>	<u>6,520,890</u>	<u>600,000</u>
HB 264 lighting loan	4.80%	114,158		(28,541)	85,617	28,539
Energy conservation loan	5.50%	<u>146,373</u>	-	<u>(96,707)</u>	<u>49,666</u>	<u>49,666</u>
Total loans payable		<u>260,531</u>	-	<u>(125,248)</u>	<u>135,283</u>	<u>78,205</u>
Capital leases		455,000		(59,000)	396,000	60,000
Compensated absences payable		<u>1,206,202</u>	<u>59,055</u>	<u>(176,638)</u>	<u>1,088,619</u>	<u>89,530</u>
Total other long-term obligations		<u>1,661,202</u>	<u>59,055</u>	<u>(235,638)</u>	<u>1,484,619</u>	<u>149,530</u>
Total		<u>\$ 8,910,608</u>	<u>\$ 206,070</u>	<u>\$ (975,886)</u>	<u>\$ 8,140,792</u>	<u>\$ 827,735</u>

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$2,980,000. The interest rates on the current interest bonds range from 3.20% to 4.70%. The capital appreciation bonds mature on December 1, 2010 (effective interest 16.57%), December 1, 2011 (effective interest 16.25%), December 1, 2012 (effective interest 16.57%), and December 1, 2013 (effective interest 16.51%), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2005 was \$413,505. A total of \$622,385 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2005.

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 2005 on the middle school refinancing general obligation bonds:

	Balance at June 30, 2004	Additions	Reductions	Balance at June 30, 2005
Current interest bonds	\$ 6,070,000	\$ -	\$ (585,000)	\$ 5,485,000
Capital appreciation bonds	<u>888,875</u>	<u>147,015</u>	<u>-</u>	<u>1,035,890</u>
Total G.O. bonds	<u>\$ 6,958,875</u>	<u>\$ 147,015</u>	<u>\$ (585,000)</u>	<u>\$ 6,520,890</u>

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
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	715,000	118,124	833,124			
2011 - 2015	735,000	497,378	1,232,378	2,980,000		2,980,000
2016 - 2017	<u>1,455,000</u>	<u>66,389</u>	<u>1,521,389</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,485,000</u>	<u>\$ 1,434,084</u>	<u>\$ 6,919,084</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 were retired from the debt service fund during fiscal year 2005.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

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:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 78,205	\$ 5,476	\$ 83,681
2007	28,539	2,740	31,279
2008	<u>28,539</u>	<u>1,370</u>	<u>29,909</u>
Total	<u>\$ 135,283</u>	<u>\$ 9,586</u>	<u>\$ 144,869</u>

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$13,352,371 (including available funds of \$622,784) and an unvoted debt margin of \$213,894.

NOTE 12 - NOTES PAYABLE

During the fiscal year, the District issued energy conservation notes for \$715,530. These notes are a general obligation of the District, for which the full faith and credit is pledged for repayment. These notes are a liability of the general fund, which received the proceeds upon issuance.

The following is a description of the notes payable outstanding at June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/04</u>	<u>Issued in 2005</u>	<u>Balance 06/30/05</u>
Energy Conservation Notes	3.50%	06/30/05	6/30/06	\$ -	\$ 715,530	\$ 715,530
Total				<u>\$ -</u>	<u>\$ 715,530</u>	<u>\$ 715,530</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, 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 2005, the District participated in the Ohio School Plan (the "Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - RISK MANAGEMENT – (Continued)

Effective January 1, 2005, the Board had another medical plan referred to as the “Core Plan” available for employees to choose for a slightly lower premium. The Core Plan allows for a \$200 single and \$400 family deductible in network and a \$400 single and \$800 family out of network deductible. This medical plan was also carried by Medical Mutual Insurance Company. The total monthly premium for medical is \$402.42 for single coverage and \$878.88 for family coverage. The District’s portion of the monthly premium is \$382.30 for single coverage and \$834.94 for family coverage, which is paid for out of the same fund that pays the salary of the employee. The employee portion for the Core Plan is \$20.12 for single coverage and \$43.94 for family coverage, which is withheld from their biweekly payroll.

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

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

C. Workers’ Compensation

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

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

NOTE 14 - DEFINED BENEFIT PENSION PLAN

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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLAN – (Continued)

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% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$320,342, \$218,156, and \$201,747, respectively; 43.69% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$180,384 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**FOSTORIA CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLAN – (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$1,139,817, \$1,129,993, and \$1,137,283, respectively; 83.37% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$189,548 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$2,226 made by the District and \$15,209 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through 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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$11,398 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2005. For the fiscal year ended June 30, net health care costs paid by STRS were \$254,789 million and STRS had 115,395 eligible benefit recipients.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005, were \$178,221,113 million and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$59,772 during the 2005 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 1,811,053
Net adjustment for revenue accruals	2,061
Net adjustment for expenditure accruals	(728,939)
Net adjustment for other sources/uses	58,833
Adjustment for encumbrances	<u>422,250</u>
GAAP basis	<u>\$ 1,565,258</u>

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (74,866)	\$ -	\$ 89,109
Current year set-aside requirement	317,357	317,357	
Qualifying disbursements	<u>(201,033)</u>	<u>(844,300)</u>	<u>-</u>
Total	<u>\$ 41,458</u>	<u>\$(526,943)</u>	<u>\$ 89,109</u>
Cash balance carried forward to FY 2006	<u>\$ 41,458</u>	<u>\$ -</u>	<u>\$ 89,109</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 18 - STATUTORY RESERVES – (Continued)

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, 2005 follows:

Amount restricted for budget stabilization	\$ 89,109
Amount restricted for textbooks	<u>41,458</u>
Total restricted assets	<u>\$130,567</u>

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**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
Food Donation	10.550	
School Breakfast Program	10.553	05PU-2004 05PU-2005
Total School Breakfast Program		
National School Lunch Program	10.555	LLP1-2004 LLP1-2005 LLP4-2004 LLP4-2005
Total - National School Lunch Program		
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>		
Adult Education - State Grant Program	84.002	ABS1-2004 ABS1-2005
Total - Adult Education - State Grant Program		
Title I Grants to Local Educational Agencies	84.010	C1S1-2004 C1S1-2005
Total - Title I Grants to Local Educational Agencies		
<u>Special Education Cluster:</u>		
Special Education - Grants to States	84.027	6BSF-2004 6BSF-2005
Total - Special Education Grants to States		
Special Education - Preschool Grants	84.173	PGD7-2004-P PGS1-2005
Total - Special Education Preschool Grants		
Total Special Education Cluster		
Safe and Drug Free Schools and Communities - National Programs	84.184C	T4S1-2004
Safe and Drug Free Schools and Communities - State Grants	84.186	DRS1-2004 DRS1-2005
Total - Safe and Drug Free Schools and Communities - State Grants		
Teaching American History Grants	84.215X	

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$ 101,144		\$ 101,144
\$ 14,173		\$ 14,173	
85,620		85,620	
<u>99,793</u>		<u>99,793</u>	
1,638		1,638	
12,444		12,444	
59,321		59,321	
<u>344,529</u>		<u>344,529</u>	
<u>417,932</u>		<u>417,932</u>	
517,725	101,144	517,725	101,144
56,478		69,975	
9,668		57,545	
<u>66,146</u>		<u>127,520</u>	
202,460		312,235	
371,467		447,158	
<u>573,927</u>		<u>759,393</u>	
127,609		205,879	
358,169		386,310	
		4,958	
<u>485,778</u>		<u>597,147</u>	
9,000		9,000	
47,356		50,435	
<u>56,356</u>		<u>59,435</u>	
542,134		656,582	
<u>4,571</u>		<u>7,467</u>	
13,871		15,653	
13,546		878	
<u>27,417</u>		<u>16,531</u>	
105,540		91,187	

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Federal CFDA Number	Grant Number
Program Title		
Innovative Education Program Strategies	84.298	C2S1-2004 C2S1-2005
Total - Innovative Education Program Strategies		
Technology Literacy Challenge Fund Grants	84.318	TJS1-2005
Total - Technology Literacy Challenge Fund Grants		
Comprehensive School Reform Demonstration	84.332	RFS2-2003 RFS3-2003 RFS3-2004
Total - Comprehensive School Reform Demonstration		
English Language Acquisition Grants	84.365	T3S1-2005
Improving Teacher Quality State Grants	84.367	TRS1-2004 TRS1-2005
Total - Improving Teacher Quality State Grants		
 Total U.S. Department of Education		
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>		
State Children's Insurance Program (CHIP)	93.767	
Medical Assistance Program (Medicaid: Title XIX)	93.778	
Total U. S. Department of Health and Human Services		
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICE <i>Passed Through Ohio Department of Education</i>		
Learn and Serve America School and Community Based Program	94.004	SVS1-2004 SVS1-2005
 U.S. DEPARTMENT OF HOMELAND SECURITY <i>Passed Through Ohio Department of Public Safety</i>		
Disaster Grants - Public Assistance	97.036	1580-DR-1470
 Total Federal Awards Expenditures		

The accompanying notes are an integral part of this schedule.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
14,034		22,198	
8,944		8,002	
<u>22,978</u>		<u>30,200</u>	
12,364		9,698	
		12,864	
<u>12,364</u>		<u>22,562</u>	
44,600		37,413	
41,000		29,843	
10,935		27,816	
<u>96,535</u>		<u>95,072</u>	
18,733		18,733	
118,406		150,123	
67,742		145,655	
<u>186,148</u>		<u>295,778</u>	
<u>1,656,493</u>		<u>2,121,025</u>	
20,876		20,876	
141,500		141,500	
<u>162,376</u>		<u>162,376</u>	
11,850		1,786	
<u>11,850</u>		<u>14,268</u>	
		<u>16,054</u>	
<u>3,191</u>		<u>3,191</u>	
<u>\$2,351,635</u>	<u>\$101,144</u>	<u>\$2,820,371</u>	<u>\$101,144</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fostoria City School District, Seneca County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 24, 2006, in which we noted the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-2, "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 24, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

May 24, 2006



**Auditor of State
Betty Montgomery**

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

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

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

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

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

May 24, 2006

FOSTORIA CITY SCHOOL DISTRICT

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster – CFDA#84.027 & # 84.173 Medical Assistance Program (Medicaid: Title XIX) –CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2005

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



**Auditor of State
Betty Montgomery**

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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
JUNE 22, 2006**