

***FREMONT CITY SCHOOL DISTRICT***

**AUDIT REPORT**

**For the Year Ended June 30, 2005**

***Charles E. Harris & Associates, Inc.***  
**Certified Public Accountants and Governmental Consultants**





**Auditor of State  
Betty Montgomery**

Board of Education  
Fremont City School District  
1220 Cedar Street, Suite A  
Fremont, Ohio 43420

We have reviewed the *Report of Independent Accountants* of the Fremont City School District, Sandusky County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

April 18, 2006

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**FREMONT CITY SCHOOL DISTRICT**  
**SANDUSKY COUNTY**  
**AUDIT REPORT**  
**For the Year Ending June 30, 2005**

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*Charles E. Harris & Associates, Inc.*  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

Board of Education  
Fremont City School District  
1220 Cedar Street  
Suite A  
Fremont, Ohio 43420

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont City School District, Sandusky 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 an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Fremont City School District, Sandusky County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*.

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 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, 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 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.

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

***Charles E. Harris & Associates, Inc.***  
April 10, 2006

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

The discussion and analysis of Fremont City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2005 are as follows:

- In total, net assets increased \$3,700,336, or 70 percent. This is a significant change from the prior fiscal year, due to an increase in the income tax rate. There was a decrease in capital assets and increase in restricted assets and the unrestricted net assets.
- General revenues represented 88 percent of all revenues for fiscal year 2005. The dependence on general revenues was slightly more than that of the prior fiscal year; however, the dependence on income and property taxes as well as unrestricted state entitlements continues to be significant.
- The School District continued to receive parity aid as part of the State foundation program in fiscal year 2005. Parity aid is distributed to low wealth school districts based on the valuation of real and personal property within their boundaries. In previous fiscal years, the use of this aid was restricted to funding additional programs. The main component of the State foundation allocation is based on the three-year average daily membership (ADM) of students enrolled during the first week of October. For the past several years, the three-year average ADM has been declining. With the changes in State law approved as part of House Bill 95, the State funding of schools is no longer based on the three-year average ADM, but solely on the actual ADM. This had a significant impact on our funding in fiscal year 2005.
- As part of the School District's fiscal watch recovery plan, the Board of Education placed an additional five-year, .5 percent income tax levy on the ballot in May 2003 (for calendar year 2004 earnings). The revenue to be generated from this addition is \$2,380,000 annually. The levy was successful and brought the full income tax rate for the School District to 1.25 percent. Due to the eighteen month timeline to realize full collection of the additional tax, the School District had to issue tax anticipation notes in January 2004, in the amount \$1,100,000, to alleviate cash flow issues. Collections from the additional income tax began in April 2004.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Fremont City School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 School District's most significant funds, with all other non-major funds presented in total in a single column. For Fremont City School District, the General Fund and the Permanent Improvement Fund are the most significant funds.

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Reporting the School District's Most Significant Funds**

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund and the Permanent Improvement Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of the funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004:

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Table 1  
Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Assets:</b>		
Current and Other Assets	\$ 17,768,508	\$ 16,562,139
Capital Assets, Net	11,725,249	12,187,961
<i>Total Assets, Net</i>	<u>29,493,757</u>	<u>28,750,100</u>
<b>Liabilities:</b>		
Current and Other Liabilities	15,442,215	18,578,186
Long-Term Liabilities	5,087,695	4,900,363
<i>Total Liabilities</i>	<u>20,529,910</u>	<u>23,478,549</u>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	10,123,555	11,280,889
Restricted	2,291,661	2,432,039
Unrestricted (Deficit)	(3,451,369)	(8,441,377)
<i>Total Net Assets</i>	<u>\$ 8,963,847</u>	<u>\$ 5,271,551</u>

Total assets increased \$743,657, over 2 percent, and generally a significant change from the prior fiscal year. Several accounts worth noting are a 29 percent increase in cash and cash equivalents, which can be attributed to two primary factors. First, there was a decrease reflected in intergovernmental receivables resulting from the School District's focus on obtaining all grant resources within the fiscal year rather than leaving amounts outstanding at fiscal year end as had occurred in prior fiscal years. Second, was the increase in income tax resources received during the fiscal year resulting from the rate increase from .75 percent to 1.25 percent.

There was a fairly sizable decrease in current and other liabilities in comparison to fiscal year 2004. There was a decrease in matured compensated absences payable of over \$212,000. This was simply the result of no retirements in fiscal year 2005. The intergovernmental payable liability decreased by a large amount, \$1,593,621, partially due to reclassification of reporting pension obligations. Also, a large payable to the Sandusky County Education Service Center did not occur in 2005.

Table 2 reflects the changes in net assets for fiscal year 2005 and 2004.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Table 2  
Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues:</b>		
Program Revenues		
Charges for Services	\$ 1,407,997	\$ 1,337,880
Operating Grants, Contributions, and Interest	3,346,295	5,413,461
Capital Grants and Contributions	280,473	111,825
<i>Total Program Revenues</i>	<u>5,034,765</u>	<u>6,863,166</u>
General Revenues		
Taxes	20,762,428	14,937,543
Grants and Entitlements	13,747,001	12,366,157
Interest	69,193	24,094
Miscellaneous	935,242	55,680
<i>Total General Revenues</i>	<u>35,513,864</u>	<u>27,383,474</u>
Gain on Sale of Fixed Assets	<u>3,900</u>	<u>-</u>
<i>Total Revenues</i>	<u>40,552,529</u>	<u>34,246,640</u>
<b>Expenses:</b>		
Instruction:		
Regular	14,702,616	16,434,146
Special	5,696,868	5,646,097
Vocational	167,005	181,007
Other	1,306,671	-
Support Services:		
Pupils	2,118,293	2,369,102
Instructional Staff	1,738,466	1,714,539
Board of Education	73,235	66,604
Administration	2,623,166	2,475,073
Fiscal	1,024,469	790,337
Business	106,083	93,224
Operation of Maintenance of Plant	2,938,543	3,088,580
Pupil Transportation	1,768,413	1,091,367
Central	55,884	78,888
Non-Instructional Services	1,728,822	2,247,258
Extracurricular Services	705,472	575,217
Intergovernmental	-	76,931
Interest and Fiscal Charges	98,187	79,052
<i>Total Expenses</i>	<u>36,852,193</u>	<u>37,007,422</u>
<i>Increase (Decrease) in Net Assets</i>	<u>\$ 3,700,336</u>	<u>\$ (2,760,782)</u>

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

Program revenues represented 12 percent of total revenues for fiscal year 2005 and decreased from the prior year due partially to accounting treatment and several grants that were not received in 2005. Program revenues generally represent tuition and fees, charges for extracurricular activities, and food service sales.

As stated previously, general revenues were 88 percent of total revenues for fiscal year 2005 and while general revenues were more than the previous fiscal year, dependence on tax resources and unrestricted grants and entitlements, primarily State foundation resources, will continue to be the primary support for School District operations.

In general, program expenses were very comparable to the prior fiscal year. The only program, which reflects a considerable change, is the costs associated with operation of non-instructional services. The School District received less resources for special instruction in the fiscal year, thus expenses decreased correspondingly.

The major program expenses for governmental activities are for instruction, which accounts for 59 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 15 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 7 percent. Therefore, approximately 81 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$ 14,702,616	\$ 16,434,146	\$(13,132,955)	\$(15,002,530)
Special	5,696,868	5,646,097	(3,631,972)	(2,966,948)
Vocational	167,005	181,007	(167,005)	(181,007)
Other	1,306,671	-	(1,306,671)	-
Support Services:				
Pupils	2,118,293	2,369,102	(2,091,293)	(2,169,493)
Instructional Staff	1,738,466	1,714,539	(1,738,466)	(1,714,539)
Board of Education	73,235	66,604	(73,235)	(66,604)
Administration	2,623,166	2,475,073	(2,623,166)	(2,475,073)
Fiscal	1,024,469	790,337	(1,024,469)	(765,924)
Business	106,083	93,224	(106,083)	(93,224)
Operation of Maintenance of Plant	2,938,543	3,088,580	(2,938,543)	(3,088,580)
Pupil Transportation	1,768,413	1,091,367	(1,768,413)	(911,511)
Central	55,884	78,888	(55,884)	(78,888)
Non-Instructional Services	1,728,822	2,247,258	(592,166)	(109,052)
Extracurricular Services	705,472	575,217	(468,920)	(376,492)
Intergovernmental	-	76,931	-	(65,339)
Interest and Fiscal Charges	98,187	79,052	(98,187)	(79,052)
<i>Total Expenses</i>	\$ 36,852,193	\$ 37,007,422	\$(31,817,428)	\$(30,144,256)

As noted earlier, the program costs for fiscal year 2005 are very comparable to the prior fiscal year as are the net costs of services. One exception is Regular Instruction, which decreased significantly in 2005 due to cutbacks. Other Instruction had greater expenses in 2005.

Another program receiving significant program revenues is non-instructional services (over 23 percent program revenues). These revenues consist of cafeteria sales and state and federal subsidies for cafeteria operations as well as State monies received by the School District on behalf of the four parochial schools within the School District's boundaries.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major funds are the General Fund where revenues exceeded expenditures for the fiscal year, and Permanent Improvement Fund which accounts for all transaction related to acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5707, Revised Code. While expenditures remained fairly close to those of the prior fiscal year, revenues increased.

**General Fund Budgeting Highlights**

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

A review of the General Fund's budgetary activity reveals a significant increase from original to final budget and from the final budget to actual amounts for both revenues and expenditures. This is due to the District's conservative budgeting approach. Revenues exceed expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005, the School District had \$10,123,555 invested in capital assets (net of accumulated depreciation), a decrease of \$1,157,334, or a little over 10 percent. Due to limited resources, additions to capital assets were very restricted again in fiscal year 2005. For further information regarding the School District's capital assets, refer to Note 11 to the basic financial statements.

**Debt**

The School District's outstanding debt at June 30, 2005, consisted of tax anticipation notes, in the amount of \$880,000 and general obligation bonds, in the amount of \$630,000. The School District's long-term obligations also include compensated absences and capital leases. For further information regarding the School District's long-term obligations, refer to Note 18 to the basic financial statements.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

**Current Issues**

The School District had projected a deficit cash position for fiscal year 2003 on the five-year forecast submitted to the Department of Education. As a result, the School District was placed in Fiscal Caution on April 10, 2003. As part of the School District's recovery plan, the Board of Education placed an additional five-year, .5 percent income tax levy on the ballot in May 2003. The revenue to be generated from this addition is \$2,380,000 annually. The levy was successful and brought the full income tax rate for the School District to 1.25 percent. Collections on the new tax began in April 2004.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Cheryl C. Burkin, Treasurer, Fremont City School District, 1220 Cedar Street, Suite A, Fremont, Ohio 43420-1156.

**Fremont City School District**  
*Statement of Net Assets*  
*June 30, 2005*

		Governmental Activities
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$	2,662,655
Investments:		
With Fiscal Agents		92,096
Restricted Assets:		
Cash and Cash Equivalents		345,064
Receivables:		
Taxes		14,131,404
Accounts		84,951
Intergovernmental		266,416
Prepaid Assets		33,188
Inventory Held for Resale		15,061
Materials and Supplies Inventory		137,673
Nondepreciable Capital Assets		409,270
Depreciable Capital Assets, Net		11,315,979
<i>Total Assets</i>	\$	29,493,757
<b>Liabilities</b>		
Accounts Payable	\$	337,887
Accrued Wages		2,905,913
Compensated Absences Payable		240,252
Pension Obligation Payable		827,167
Intergovernmental Payable		94,671
Unearned Revenue		10,042,896
Claims Payable		971,751
Accrued Interest Payable		38,078
Notes Payable		880,000
Long-Term Liabilities:		
Due Within One Year		323,343
Due Within More Than One Year		3,884,352
<i>Total Liabilities</i>	\$	20,546,310
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	\$	10,123,555
Restricted for:		
Capital Projects		1,453,683
Debt Service		(18,040)
Set Asides		345,064
Other Purposes		510,954
Unrestricted (Deficit)		(3,467,769)
<i>Total Net Assets</i>	\$	8,947,447

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 14,702,616	\$ 549,577	\$ 763,375	280,473	\$ (13,109,191)
Special	5,696,868	-	2,064,896	-	(3,631,972)
Vocational	167,005	-	-	-	(167,005)
Other	1,306,671	-	-	-	(1,306,671)
Support Services:					
Pupils	2,118,293	-	27,000	-	(2,091,293)
Instructional Staff	1,738,466	-	-	-	(1,738,466)
Board of Education	73,235	-	-	-	(73,235)
Administration	2,623,166	-	-	-	(2,623,166)
Fiscal	1,024,469	-	-	-	(1,024,469)
Business	106,083	-	-	-	(106,083)
Operation and Maintenance of Plant	2,938,543	-	-	-	(2,938,543)
Pupil Transportation	1,768,413	-	-	-	(1,768,413)
Central	55,884	-	-	-	(55,884)
Operation of Non-Instructional Services	1,728,822	621,868	514,788	-	(592,166)
Extracurricular Activities	705,472	236,552	-	-	(468,920)
Interest and Fiscal Charges	114,587	-	-	-	(114,587)
<b>Totals</b>	<b>\$ 36,868,593</b>	<b>\$ 1,407,997</b>	<b>\$ 3,370,059</b>	<b>280,473</b>	<b>\$ (31,810,064)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	\$ 19,541,215
Capital Purposes	1,197,449
Grants and Entitlements not Restricted to Specific Programs	13,747,001
Payment in Lieu of Taxes	676,000
Investment Earnings	69,193
Miscellaneous	259,242
<b>Total General Revenues</b>	<b>35,490,100</b>
Gain on the Sale of Fixed Assets	3,900
Changes in Net Assets	3,683,936
<b>Net Assets Beginning of Year</b>	<b>5,263,511</b>
<b>Net Assets End of Year</b>	<b>\$ 8,947,447</b>

See accompany notes to the basic financial statements

**Fremont City School District**  
*Balance Sheet*  
**Governmental Funds**  
*June 30, 2005*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 242,980	\$ 1,162,217	\$ 857,410	\$ 2,262,607
Investments:				
With Fiscal Agents	92,096	-	-	92,096
Restricted Assets:				
Cash and Cash Equivalents	345,064	-	-	345,064
Receivables:				
Taxes	13,134,762	996,642	-	14,131,404
Accounts	79,931	-	5,020	84,951
Intergovernmental	-	-	266,416	266,416
Interfund Receivables	15,362	6,471	88	21,921
Prepaid Items	31,877	-	1,311	33,188
Inventory Held for Resale	-	-	15,061	15,061
Materials and Supplies Inventory	137,673	-	-	137,673
<i>Total Assets</i>	<u>14,079,745</u>	<u>2,165,330</u>	<u>1,145,306</u>	<u>17,390,381</u>
<b>Liabilities</b>				
Accounts Payable	150,760	1,200	185,777	337,737
Accrued Wages and Benefits	2,724,821	-	181,092	2,905,913
Compensated Absences Payable	231,921	-	8,331	240,252
Pension Obligation Payable	755,874	-	71,293	827,167
Interfund Payable	10,658	-	11,263	21,921
Intergovernmental Payable	87,144	-	7,524	94,668
Deferred Revenue	9,884,780	752,020	50,036	10,686,836
Accrued Interest Payable	16,400	-	18,040	34,440
Notes Payable	880,000	-	-	880,000
<i>Total Liabilities</i>	<u>14,742,358</u>	<u>753,220</u>	<u>533,356</u>	<u>16,028,934</u>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	-	549,209	322,928	872,137
Textbooks	345,064	-	-	345,064
Property Taxes	3,249,982	244,622	-	3,494,604
Undesignated, Reported in:				
General Fund	(4,257,659)	-	-	(4,257,659)
Special Revenue Funds	-	-	307,062	307,062
Debt Service Funds	-	-	(18,040)	(18,040)
Capital Projects Funds	-	618,279	-	618,279
<i>Total Fund Balances</i>	<u>(662,613)</u>	<u>1,412,110</u>	<u>611,950</u>	<u>1,361,447</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 14,079,745</u>	<u>\$ 2,165,330</u>	<u>\$ 1,145,306</u>	<u>\$ 17,390,381</u>

See accompany notes to the basic financial statements

**Fremont City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2005*

**Total Governmental Fund Balances** \$ 1,361,447

***Amounts reported for governmental activities in the  
 statement of net assets are different because***

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 11,725,249

Other long-term assets that are not available to pay for current-period  
 expenditures and therefore are deferred in the funds:  
   Taxes Receivables 643,940

Long-term liabilities, including bonds and notes payable are not due and  
 payable in the current period and therefore are not reported in  
 the funds.

Accrued Interest Payable	(3,638)	
Compensated Absences	(3,486,001)	
General Obligation Bonds Payable	(630,000)	
Capital Leases Payable	(91,694)	
Total		(4,211,333)

An internal service fund is used by management to charge the cost  
 of insurance to individual funds. The assets and liabilities of the internal  
 service fund are included in governmental activities on the statement  
 of net assets. (571,856)

*Net Assets of Governmental Activities* \$ 8,947,447

See accompany notes to the basic financial statements

**Fremont City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 19,670,329	\$ 1,178,819	\$ -	\$ 20,849,148
Intergovernmental	13,295,272	95,591	4,212,421	17,603,284
Payment in Lieu of Taxes	676,000	-	-	676,000
Interest	71,864	-	1,748	73,612
Tuition	397,851	-	-	397,851
Extracurricular Activities	1,731	-	235,370	237,101
Charges for Services	22,207	-	621,868	644,075
Classroom Materials and Fees	119,452	-	10,067	129,519
Miscellaneous	129,598	-	141,379	270,977
<i>Total Revenues</i>	<u>34,384,304</u>	<u>1,274,410</u>	<u>5,222,853</u>	<u>40,881,567</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,072,475	50,343	732,599	14,855,417
Special	4,300,689	-	1,501,333	5,802,022
Vocational	158,000	-	12,214	170,214
Other	1,306,671	-	-	1,306,671
Support Services:				
Pupils	1,884,360	-	227,007	2,111,367
Instructional Staff	1,125,441	-	624,515	1,749,956
Board of Education	73,235	-	-	73,235
Administration	2,424,768	-	91,439	2,516,207
Fiscal	1,005,447	22,357	21,729	1,049,533
Business	103,840	-	4,983	108,823
Operation and Maintenance of Plant	2,936,657	9,352	36,632	2,982,641
Pupil Transportation	1,557,450	180,780	33,004	1,771,234
Central	58,825	-	12,714	71,539
Operation of Non-Instructional Services	8,362	-	1,721,889	1,730,251
Extracurricular Activities	475,040	-	198,980	674,020
Capital Outlay	-	139,191	17,448	156,639
Debt Service:				
Principal Retirement	75,378	-	110,000	185,378
Interest and Fiscal Charges	56,132	-	58,455	114,587
<i>Total Expenditures</i>	<u>31,622,770</u>	<u>402,023</u>	<u>5,404,941</u>	<u>37,429,734</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>2,761,534</u>	<u>872,387</u>	<u>(182,088)</u>	<u>3,451,833</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	3,900	-	-	3,900
Transfer In	-	6,471	150,415	156,886
Transfer Out	(156,886)	-	-	(156,886)
<i>Total Other Financing Sources (Uses)</i>	<u>(152,986)</u>	<u>6,471</u>	<u>150,415</u>	<u>3,900</u>
<i>Net Change in Fund Balances</i>	2,608,548	878,858	(31,673)	3,455,733
<i>Fund Balances Beginning of Year</i>	<u>(3,271,161)</u>	<u>533,252</u>	<u>643,623</u>	<u>(2,094,286)</u>
<i>Fund Balances End of Year</i>	<u>\$ (662,613)</u>	<u>\$ 1,412,110</u>	<u>\$ 611,950</u>	<u>\$ 1,361,447</u>

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in the 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** \$ 3,455,733

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

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

Fixed Assets Additions (Deletions)	121,350	
Current Year Depreciation	(584,062)	
Total		(462,712)

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

Taxes	(110,484)	
Intergovernmental	(210,719)	
Miscellaneous	(11,735)	
Total		(332,938)

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

185,378

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences Payable	777,907	
Intergovernmental Payable	316,199	
Total		1,094,106

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

(255,631)

***Change in Net Assets of Governmental Activities*** **\$ 3,683,936**

See accompany notes to the basic financial statements

**Fremont City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$ 13,499,672	\$ 17,899,236	\$ 18,080,194	\$ 180,958
Intergovernmental	15,827,066	13,265,536	13,286,807	21,271
Payment in Lieu of Taxes	670,000	670,000	676,000	6,000
Interest	85,603	24,700	71,864	47,164
Tuition and Fees	407,997	236,000	342,513	106,513
Extracurricular Activities	2,062	665	1,731	1,066
Classroom Materials and Fees	108,103	112,553	90,752	(21,801)
Miscellaneous	279,881	170,689	121,424	(49,265)
<i>Total Revenues</i>	<u>\$30,880,384</u>	<u>32,379,379</u>	<u>32,671,285</u>	<u>291,906</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	13,462,426	14,808,016	14,771,714	36,302
Special	3,913,983	4,254,149	4,245,425	8,724
Vocational	141,786	155,958	155,947	11
Other	1,205,599	1,302,146	1,302,146	-
Support Services:				
Pupil	1,708,545	1,864,559	1,858,079	6,480
Instructional Staff	1,014,327	1,115,711	1,115,589	122
Board of Education	73,491	80,837	77,912	2,925
Administration	2,181,762	2,399,832	2,393,357	6,475
Fiscal	931,301	1,024,386	1,017,620	6,766
Business	91,019	100,117	99,616	501
Operation and Maintenance of Plant	2,609,083	2,869,865	2,869,792	73
Pupil Transportation	1,437,634	1,581,328	1,580,523	805
Central	48,750	53,623	53,623	-
Operation of Non-Instructional Services	7,005	7,705	7,705	-
Extracurricular Activities	434,749	478,203	476,801	1,402
Debt Service:				
Principal Retirement	295,378	295,378	295,378	-
Interest and Fiscal Charges	64,401	64,401	64,401	-
<i>Total Expenditures</i>	<u>29,621,239</u>	<u>32,456,214</u>	<u>32,385,628</u>	<u>70,586</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,259,145</u>	<u>(76,835)</u>	<u>285,657</u>	<u>362,492</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	-	-	3,900	3,900
Refund of Prior Year Expenditures	2,450	2,450	13,583	11,133
Advance In	4,187	4,187	4,187	-
Advance Out	(15,201)	(15,201)	(15,201)	-
Transfers Out	(156,886)	(156,886)	(156,886)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(165,450)</u>	<u>(165,450)</u>	<u>(150,417)</u>	<u>15,033</u>
<i>Net Change in Fund Balance</i>	1,093,695	(242,285)	135,240	377,525
<i>Fund Balance Beginning of Year</i>	216,825	216,825	216,825	-
Prior Year Encumbrances Appropriated	124,869	124,869	124,869	-
<i>Fund Balance End of Year</i>	<u>\$ 1,435,389</u>	<u>\$ 99,409</u>	<u>\$ 476,934</u>	<u>\$ 377,525</u>

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Fund Assets*  
*Proprietary Funds*  
*June 30, 2005*

	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 400,048</u>
<i>Total Assets</i>	<u><u>400,048</u></u>
<b>Liabilities</b>	
Accounts Payable	100
Intergovernmental Payable	3
Pension Obligation Payable	1,960
Claims Payable	<u>969,841</u>
<i>Total Liabilities</i>	971,904
<b>Net Assets</b>	
Unrestricted	<u>(571,856)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>\$ (571,856)</u></u>

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Revenues,  
 Expenses and Changes in Fund Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2005*

	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating Revenues</b>	
Charges for Services	4,882,499
<i>Total Operating Revenues</i>	<u>4,882,499</u>
<b>Operating Expenses</b>	
Salaries	8,463
Fringe Benefits	1,008
Purchased Services	945,703
Materials and Supplies	571
Other	4,503,190
<i>Total Operating Expenses</i>	<u>5,458,935</u>
<i>Operating Income (Loss)</i>	(576,436)
<b>Non-Operating Revenues (Expenses)</b>	
Intergovernmental	320,805
<i>Total Non-Operating Revenues</i>	<u>320,805</u>
<i>Change in Net Assets</i>	(255,631)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(316,225)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$ (571,856)</u></u>

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Other Cash Receipts	\$ 4,882,499
Cash Payments to Employees for Services	(6,500)
Cash Payments for Employee Benefits	(1,008)
Cash Payments for Goods and Services	(928,661)
Other Cash Payments	<u>(4,185,949)</u>
<i>Net Cash Provided by (Used in) Operating Activities</i>	(239,619)
<b>Cash Flows from Noncapital Financing Activities</b>	
Grants Received	<u>340,156</u>
<i>Net Cash Provided by (Use by) Noncapital Financing Activities</i>	<u>340,156</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	100,537
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>299,511</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 400,048</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>	
<i>Operating Income (Loss)</i>	\$ (576,436)
(Increase) Decrease in Assets:	
Prepaid Items	52,388
Increase (Decrease) in Liabilities:	
Accounts Payable	(33,955)
Pension Obligation Payable	1,960
Intergovernmental Payable	(717)
Claims Payable	<u>317,141</u>
<i>Total Adjustments</i>	<u>336,817</u>
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u><u>\$ (239,619)</u></u>

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2005*

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 44,504	\$ 91,315
Cash in Segregated Accounts	44,140	-
Accrued Interest	43	-
Prepaid Items	-	661
<i>Total Assets</i>	88,687	91,976
<b>Liabilities</b>		
Accounts Payable		5,904
Due to Students		86,072
<i>Total Liabilities</i>		\$ 91,976
<b>Net Assets</b>		
Held in Trust for Scholarships	41,993	
Endowments	46,694	
<i>Total Net Assets</i>	\$ 88,687	

See accompanying notes to the basic financial statements

**Fremont City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Year Ended June 30, 2005*

	Private Purpose Trust
	Scholarship
<b>Addition</b>	
Interest	\$ 1,323
Other Operating Revenues	38,934
<i>Total Additions</i>	40,257
<b>Deduction</b>	
Other Operating Expenses	1,990
<i>Total Deductions</i>	1,990
<i>Change in Net Assets</i>	38,267
<i>Net Assets Beginning of Year</i>	50,420
<i>Net Assets End of Year</i>	\$ 88,687

See accompanying notes to the basic financial statements

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred sixty-two square miles. It is located in central Sandusky County, including all of the City of Fremont and portions of surrounding townships. The School District is the 79<sup>th</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment and the largest in Sandusky County. It is staffed by 209 classified employees, 310 certified teaching personnel, and twenty-two administrative employees who provide services to 4,621 students and other community members. The School District currently operates seven elementary schools, a middle school, and a comprehensive high school.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Fremont City School District, this includes general operations, food service, preschool, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Fremont City School District.

The following activity is included within the School District's reporting entity:

Parochial Schools -Within the School District boundaries, St. Ann, St. Joseph Elementary, and St. Joseph High School are operated through the Toledo Catholic Diocese; Sacred Heart is operated as a private school. Current state legislation provides funding to these parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District participates in five jointly governed organizations and two insurance pools. These organizations are the Northern Ohio Educational Computer Association, the Northwestern Ohio Educational Research Council, Inc., the Vanguard-Sentinel Career Center, the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Ohio School Plan, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 23 and 24 to the basic financial statements.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Fremont City School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. 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 School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the proprietary fund financial statements. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in three categories: governmental, proprietary, and fiduciary.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District has two 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - This fund accounts for all transaction related to acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705.

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The School District reports one type of proprietary fund:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's Self Insurance internal service fund accounts for the activities of the program for employee health care benefits.

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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-managed and student-managed activities.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

Fund Financial Statements

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

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its proprietary fund.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

**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; the proprietary fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, charges for services, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are a report of estimated tax revenues, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The report of estimated tax revenues identifies the estimated revenues for those funds receiving tax monies as well as various debt and other schedules. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

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The School District receives certain operating resources which are received by the Sandusky County Educational Service Center and are expended by the Educational Service Center on the School District's behalf as directed by the School District. Budgetary information for these resources is not included within the School District's reporting entity for which the "appropriated budget" is adopted.

**F. Cash and Investments**

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

Cash and cash equivalents held for the School District by the Sandusky County Educational Service Center are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$71,864.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at the lower of cost or market on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, and donated and purchased food.

**I. 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 textbooks. Unclaimed monies that must be held for five years before being spent are also reported as restricted.

**J. Capital Assets**

All of the School District's capital assets are general capital assets. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of ten thousand dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All 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>Useful Lives</u>
Buildings and Building Improvements	5 - 75 years
Furniture, Fixtures, and Equipment	3 - 25 years
Vehicles	7 - 15 years

**K. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service with the School District.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

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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, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**O. Fund Balance Reserves**

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for textbooks, property taxes, and encumbrances.

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services in the internal service fund. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as nonoperating.

**Q. Interfund Transactions**

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 and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

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**S. Estimates**

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

**NOTE 3 –RESTATEMENT OF PRIOR YEAR FUND BALANCES AND NET ASSETS**

For fiscal year 2005, the School District has implemented GASB Statement No. 40, “Deposits and Investment Risk Disclosures” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.” There were also fund reclassifications and misstatements, which affected both fund balances and net assets.

The restatement of fund balance and net assets is presented below:

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
Fund balances at June 30, 2004	\$ (3,358,176)	\$ 533,252	\$ 723,249	\$ (2,101,675)
Fund Reclassifications/misstatements	87,015	-	(79,626)	7,389
Restated fund balances, July 1, 2004	\$ (3,271,161)	\$ 533,252	\$ 643,623	\$ (2,094,286)

	Internal Service	Private-Purpose Trust
Fund balances at June 30, 2004	\$ (300,801)	\$ 41,245
Fund Reclassifications/misstatements	(15,424)	9,175
Restated fund balances, July 1, 2004	\$ (316,225)	\$ 50,420

	Governmental Activities
Net Assets June 30, 2004	\$ 5,271,551
Net Assets Reclassifications	(8,040)
<i>Adjusted Net Assets</i>	<u>\$ 5,263,511</u>

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At June 30, 2005, the General Fund, Entry Year Program, D.P.I.A., Professional Development, Student Intervention, Title II-D special revenue funds, and the Debt Service Fund had deficit fund balances, in the amount of \$662,613, \$28, \$414, \$1,708, \$25,010, \$60,854, and \$18,040 respectively, resulting from adjustments for accrued liabilities and notes payable.

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Change in Fund Balance		
GAAP Basis	\$	2,608,548
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals		(1,695,249)
Expenditure Accruals		(666,949)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)		(111,110)
Budget Basis	\$	135,240

**NOTE 6 - 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.

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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 Treasury Asset Reserve of Ohio (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.

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

**A. Cash on Hand**

At year-end, the District had \$679 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$92,096 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

**C. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$ 3,186,998. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$3,829,451 of the District's bank balance of \$ 4,029,451 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.

**D. Investments**

*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 were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services respectively.

*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:

**E. 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	\$ 3,186,998
Cash on hand	<u>679</u>
Total	<u>\$ 3,187,677</u>

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<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,007,718
Private-purpose trust funds	88,644
Agency funds	<u>91,315</u>
Total	<u>\$ 3,187,677</u>

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005, consisted of accounts (rent, billings for user charged services, and student fees), intergovernmental, income taxes, interfund, amounts due from external parties, and property taxes. 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 follows:

	<u>Amount</u>
<b>Governmental Activities</b>	
General Fund	
Taxes Receivable	\$ 13,134,762
Permanent Improvement Fund	
Taxes Receivables	996,642
Other Governmental Funds	
Title I Migrant	101,754
Title III	566
Title I Schoolwide	102,047
Drug Free Grant	2,029
Title II-A	60,020
<i>Total Other Governmental Funds</i>	<u>266,416</u>
<i>Total Governmental Activities</i>	<u>\$ 14,397,820</u>

**NOTE 8 - INCOME TAXES**

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. Of this amount, .75 percent of the tax was effective on January 1, 1999, and .5 percent of the tax was effective on January 1, 2004. Both will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

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Notes to the Basic Financial Statement  
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**NOTE 9 - PAYMENT IN LIEU OF TAXES**

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires.

**NOTE 10 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Sandusky County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

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Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected 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 \$3,249,982 in the General Fund and \$ 244,622 in the Permanent Improvement capital projects fund.

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

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 473,514,990	79.29%	\$ 479,739,260	79.58%
Public Utility	25,640,270	4.29%	25,664,770	4.26%
Tangible Personal	98,060,930	16.42%	97,454,011	16.17%
Total Assessed Value	<u>\$ 597,216,190</u>	<u>100%</u>	<u>\$ 602,858,041</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$ 34.10		\$ 34.10	

**NOTE 11 - CAPITAL ASSETS**

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

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Notes to the Basic Financial Statement  
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	Balance at 6/30/2004	Additions	Reductions	Balance at 6/30/2005
<b>Governmental Activities:</b>				
Nondepreciable Capital Assets				
Land	\$ 409,270	\$ -	\$ -	\$ 409,270
Depreciable Capital Assets				
Buildings and Building Improvements	17,036,484	-	-	17,036,484
Furniture, Fixtures, and Equipment	1,149,703	-	(15,546)	1,134,157
Vehicles	2,573,947	121,350	(14,167)	2,681,130
<i>Total Depreciable Capital Assets</i>	20,760,134	121,350	(29,713)	20,851,771
Less Accumulated Depreciation				
Buildings and Building Improvements	(7,049,910)	(215,673)	-	(7,265,583)
Furniture, Fixtures, and Equipment	(466,810)	(80,739)	15,546	(532,003)
Vehicles	(1,464,723)	(287,650)	14,167	(1,738,206)
<i>Total Accumulated Depreciation</i>	(8,981,443)	(584,062)	29,713	(9,535,792)
Depreciable Capital Assets, Net	11,778,691	(462,712)	-	11,315,979
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	\$ 12,187,961	\$ (462,712)	\$ -	\$ 11,725,249

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 187,399
Special	23,860
Support Services:	
Instructional Staff	1,561
Administration	8,425
Operation and Maintenance of Plant	151,812
Pupil Transportation	158,540
Operation of Non-Instructional Services	9,269
Extracurricular Activities	40,962
Capital Outlay	2,234
<i>Total Depreciation Expense</i>	<u>\$ 584,062</u>

**NOTE 12 - INTERFUND ASSETS/LIABILITIES**

**A. Interfund Receivable/Payable**

The interfund receivable/payable consisted of the following at June 30, 2005, as reported on the fund financial statements:

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Notes to the Basic Financial Statement  
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Fund	Interfund Receivable	Interfund Payable
General	\$ 15,362	\$ 10,658
Permanent Improvement	6,471	
Other Governmental Funds	88	11,263
<b>Total</b>	<b>\$ 21,921</b>	<b>\$ 21,921</b>

The primary purpose of the interfund balances is to cover costs in specific funds where revenue were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

**B. Interfund Transfers**

The interfund transfers consisted of the following at June 30, 2005, as reported on the fund financial statements:

Fund	Transfer Out	Transfer In
General	\$ 156,886	
Permanent Improvement		\$ 6,471
Debt Service		150,415

Transfers are used to move revenues from the fund that statute or budget requires 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 authorization.

**NOTE 13 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted for the following insurance coverage:

Coverage provided by the Midwestern Indemnity Company:	
Buildings and Contents	\$ 63,516,054
Coverage provided by the Mid American Fire and Casualty Company:	
Automobile Liability	1,000,000
Coverage provided by the Ohio School Plan	
General Liability	
Each Occurrence	1,000,000
Aggregate	3,000,000

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

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 School District participated in the Ohio School Plan (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.

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

The School District offers medical, prescription drug, and dental insurance to all employees through a partially self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The School District purchased stop loss insurance for claims in excess of \$100,000 per individual annually and \$1,000,000 per individual, per lifetime. Settled claims have not exceeded this coverage for the past three years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2005, were estimated by the third party administrator at \$971,751. The changes in the claims liability for the past two fiscal years are as follow:

	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2005	\$ 652,700	\$ 4,822,241	\$ 4,503,190	\$ 971,751
2004	534,700	3,408,265	3,290,265	652,700

FREMONT CITY SCHOOL DISTRICT  
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Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$2,202,162, \$2,132,198, and \$2,116,385, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$4,999 made by the School District and \$19,073 made by plan members.

FREMONT CITY SCHOOL DISTRICT  
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Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**B. School Employees Retirement System**

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$477,887, \$429,444, and \$368,983, respectively; 40 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$160,428.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. 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 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$252,250 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113, and the target level was \$158.8 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 16 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per 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 a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty-five days for administrators, supervisors, and classified supervisors; two hundred twenty days for teachers and school calendar employees; and two hundred fifty days for full-time classified employees. Upon retirement, payment is made for one half of accrued, but unused sick leave credit to a maximum of fifty-one days for teachers and thirty-five days for classified employees. Payment for administrators, supervisors, and classified supervisors is made for one fourth up to forty-seven days. In addition, classified employees receive one-half of accrued, but unused sick leave credit in excess of seventy days, up to a maximum of twelve days.

**B. Health Care Benefits**

The School District provides medical, prescription drug, and dental insurance benefits to all employees through a partially self-insured program.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**C. Special Termination Benefits**

The School District offers a special termination benefit to employees in the first year they are eligible to retire from their respective retirement system. The benefit is available to certified employees who have five or more years of consecutive service and retire from STRS and to classified employees who have seventeen or more years of consecutive service and retire from SERS. The bonus, of twenty days calculated at the employee's daily rate at the time of retirement, will be paid after January 1 and before March 31 of the year following retirement for certified employees and within sixty days of retirement acceptance for classified employees. The bonus carries a provision that classified employees must also have accrued in excess of one hundred fifty days of unused sick leave at the time of retirement.

**NOTE 17 - NOTES PAYABLE**

During fiscal year 2004, the School District issued \$1,100,000 in tax anticipation notes for general operations of the School District. The notes were issued under the authority of Ohio Revised Code Section 5748.05 for a five-year period, with final maturity during fiscal year 2009. The notes have an interest rate of 4.92 percent.

Principal and interest requirements to retire the notes payable outstanding at June 30, 2005, were as follows:

Fiscal Year	Principal	Interest	Total
2006	\$ 220,000	\$ 43,296	\$ 263,296
2007	220,000	32,472	252,472
2008	220,000	21,648	241,648
2009	220,000	10,824	230,824
	<u>\$ 880,000</u>	<u>\$ 108,240</u>	<u>\$ 988,240</u>

**NOTE 18 - LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/2004	Additions	Reductions	Balance at 6/30/2005	Amount Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds					
FY 2001 5.90%	\$ 740,000	\$ -	\$ (110,000)	\$ 630,000	\$ 115,000
Compensated Absences Payable	3,993,291	139,215	(646,505)	3,486,001	140,147
Capital Leases Payable	167,072	-	(75,378)	91,694	68,196
<i>Total Governmental Activities</i>					
<i>Long-Term Obligations</i>	<u>\$ 4,900,363</u>	<u>\$ 139,215</u>	<u>\$ (831,883)</u>	<u>\$ 4,207,695</u>	<u>\$ 323,343</u>

FREMONT CITY SCHOOL DISTRICT  
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Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

FY 2001 General Obligation Bonds - In fiscal year 2001, the School District issued \$1,045,000 in unvoted general obligation bonds for providing energy conservation measures for the School District. The bonds were issued under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372 for a nine year period, with final maturity during fiscal year 2010. The bonds are being retired through the Bond Retirement debt service fund.

Compensated absences will be paid from the General Fund and the Food Service, Auxiliary Services, Disadvantaged Pupil Impact Aid, Migrant Education, Title VI-B, and Title I special revenue funds.

The School District's overall debt margin was \$52,751,842 with an unvoted debt margin of \$602,909 at June 30, 2005.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2005, were as follows:

Fiscal Year	Principal	Interest	Total
2006	\$ 115,000	\$ 33,778	\$ 148,778
2007	125,000	26,698	151,698
2008	130,000	19,175	149,175
2009	130,000	11,505	141,505
2010	130,000	3,835	133,835
	<u>\$ 630,000</u>	<u>\$ 94,991</u>	<u>\$ 724,991</u>

**NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE**

The School District has entered into leases for copiers. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2005 were \$75,378 in the governmental funds.

	Governmental Activities
Property under Capital Lease	\$ 285,610
Less Accumulated Depreciation	(226,480)
Total June 30,2005	<u>\$ 59,130</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005:

FREMONT CITY SCHOOL DISTRICT  
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Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

Year	Governmental Activities	
	Principal	Interest
2006	\$ 68,196	\$ 3,048
2007	23,498	251
<i>Total</i>	\$ 91,694	\$ 3,299

**NOTE 20 - SET ASIDES**

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbooks	Capital Improvements
Balance June 30, 2004	\$ 1,289,559	\$ -
Set -Aside Amount Forgiven by the State Department of Education	(1,289,559)	-
Current Year Set Aside Requirement	596,792	596,792
Qualifying Expenditure	(251,728)	(1,134)
Current Year Offsets	-	(1,036,378)
Balance June 30, 2005	\$ 345,064	\$ (440,720)

**NOTE 21 - DONOR RESTRICTED ENDOWMENTS**

The School District's private purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments. Endowments, in the amount of \$46,694, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$41,993 and is reflected as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

FREMONT CITY SCHOOL DISTRICT  
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Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**NOTE 22 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northern Ohio Educational Computer Association**

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among forty-one school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. During fiscal year 2005, the School District paid \$82,975 to NOECA for various services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

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

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

**C. Vanguard-Sentinel Career Center**

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

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**D. Northwest Ohio Special Education 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 a 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.

**E. Northwest Ohio Regional Professional Development Center**

The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning.

The RPDC is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2<sup>nd</sup> Floor, Toledo, Ohio 43602.

**NOTE 23 - INSURANCE POOLS**

**A. Ohio School Plan**

The School District participates in the Ohio School Plan (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.

FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY

Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2005

**B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials (OASBO) as an insurance purchasing pool.

The Plan's business and affairs are conducted by the five-member OASBO Board of Directors. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**NOTE 24 - FISCAL CAUTION**

On April 10, 2003, the School District was declared in fiscal caution by the State Department of Education due to projected deficits. The School District's current five-year forecast reflects positive fund balances through fiscal year 2007. Fiscal year 2010 currently reflects a projected deficit. The State Department of Education continues to monitor to School District's financial activity.

**NOTE 25 - STATE SCHOOL FUNDING DECISION**

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

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

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

**NOTE 26 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

Fremont City School District  
Schedule of Federal Awards Expenditures  
For the Year Ending June 30, 2005

Federal Grantor/Pass Through Grantor Number/Program Title	CFDA Number	Federal Receipts	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Pass through Ohio Department of Development:			
Nutrition Cluster:			
Food Distribution	10.550	\$ 113,248	\$ 113,248
National School Lunch Program	10.555	543,258	543,258
Breakfast Program	10.553	77,192	77,192
Summer Food Service Program	10.559	<u>22,050</u>	<u>22,050</u>
<b>Total Nutrition Cluster</b>		<u>755,748</u>	<u>755,748</u>
<b>Total U.S. Department of Agriculture</b>		755,748	755,748
<b><u>U.S. Department of Education</u></b>			
Pass through Ohio Department of Education:			
ESEA Title I, Part C, Migrant Education—State Grant Program			
Title I Migrant Worker- FY 04	84.011	-	132,175
Title I Migrant Worker- FY 05	84.011	<u>58,246</u>	<u>42,154</u>
<b>Total Title I - Migrant Education</b>		58,246	174,329
ESEA Title I, Part A, Title I Grants to Local Education Agencies			
Title I - FY 04	84.010	44	205,434
Title I - FY 05	84.010	<u>727,071</u>	<u>608,318</u>
<b>Total Title I - Grants to Local Education Agencies</b>		727,115	813,752
Title VI - B, Special Education - Assistance to States for Education of Handicapped Children			
Title VI - B - FY 04	84.027	-	28,822
Title VI - B - FY 05	84.027	<u>1,052,611</u>	<u>1,008,441</u>
<b>Total Title VI - B</b>		1,052,611	1,037,263
Drug - Free School Grant			
Drug - Free School Grant - FY04	84.186	-	6,013
Drug - Free School Grant - FY05	84.186	<u>21,537</u>	<u>15,763</u>
<b>Total Drug - Free School Grant</b>		21,537	21,776
Innovative Education Program Strategies			
Innovative Education Program Strategies - FY04	84.298	-	5,084
Innovative Education Program Strategies - FY05	84.298	<u>23,172</u>	<u>11,342</u>
<b>Total Innovative Education Program Strategies</b>		23,172	16,426
Title II-A			
Improved Teacher Quality - FY04	84.336	4,880	101,514
Improved Teacher Quality - FY05	84.336	<u>221,612</u>	<u>180,631</u>
<b>Total Title II-A</b>		226,492	282,145
Title II -D			
Technology - FY04	84.342	-	1,269
Technology - FY05	83.342	<u>20,356</u>	<u>20,356</u>
<b>Total Title II-D</b>		20,356	21,625
Title III			
Title III Immigrant - FY05	84.365	3,612	2,583
Title III LEP - FY05	84.365	<u>11,873</u>	<u>8,436</u>
<b>Total Title III</b>		15,485	11,019
Comprehensive School Reform			
Comprehensive School Reform - FY04	84.332	-	22,945
<b>Total Comprehensive School Reform</b>		-	22,945
21st Century			
21st Century -FY05	84.287	<u>252,073</u>	<u>245,511</u>
<b>Total 21st Century</b>		<u>252,073</u>	<u>245,511</u>
Total U.S. Department of Education		<u>2,397,087</u>	<u>2,646,791</u>
<b>Total Federal Expenditures</b>		<u>\$ 3,152,835</u>	<u>\$ 3,402,539</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**FREMONT CITY SCHOOL DISTRICT**  
**Sandusky County, Ohio**  
**Notes to the Federal Awards Expenditure Schedule**  
**For the Year Ended June 30, 2005**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

**2. Food Distribution**

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had immaterial food commodities in inventory recorded in the Food Service Fund.

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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**INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education  
Fremont City School District  
1220 Cedar Street  
Suite A  
Fremont, Ohio 43420

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont City School 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 April 10, 2006, wherein we noted the District implemented GASB Technical Bulletin No. 2004-2 and GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

***Charles E. Harris & Associates, Inc.***  
**April 10, 2006**

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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

Board of Education  
Fremont City School District  
1220 Cedar Street  
Suite A  
Fremont, Ohio 43420

**Compliance**

We have audited the compliance of the Fremont City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

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

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

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

***Charles E. Harris & Associates, Inc.***  
**April 10, 2006**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505**

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY  
June 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Nutrition Cluster: Food Distribution CFDA 10.550 School Breakfast Prog. CFDA 10.553 Nat. School Lunch Prog. CFDA 10.555 Sum. Food Service Prog. CFDA 10.559 Title I CFDA 84.010 Special Education Cluster: Title VI-B CFDA 84.027
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)**  
**OMB CIRCULAR A-133 SECTION .505**

**FREMONT CITY SCHOOL DISTRICT**  
**SANDUSKY COUNTY**  
June 30, 2005

**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.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<b>FINDING NUMBER</b>	<b>FUNDING SUMMARY</b>	<b>FULLY CORRECTED?</b>	<b>Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2004-001	OMB Circular A-87, Attachment B, Section 8(a)-The District overpaid a tutor.	Yes	The District was reimbursed the amount of the overpayment.
2004-002	Ohio Revised Code Section 117.28-The District overpaid the Superintendent	Yes	The District was reimbursed the amount of the overpayment.
2004-003	Ohio Revised Code Section 5705.10- Funds had negative fund balances throughout the year	Yes	The District did not have negative fund balances throughout the fiscal year.
2004-004	Ohio Revised Code Section 5705.39- Total appropriations exceeded total estimated resources available for expenditure throughout the year	Yes	The District did not have appropriations exceeding estimated resources throughout the year.
2004-005	Ohio Revised Code Section 5705.41-The District did not certify the availability of funds	Yes	The District certified the availability of funds.
2004-006	Ohio Revised Code Section 5705.39-The District did not certify funds prior to expending the funds	Yes	The District certified funds prior to expending them.

**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS- (continued)  
JUNE 30, 2005**

<b>2004-007</b>	<b>The District did not prepare Sales Project Potential Forms for fundraisers</b>	<b>Yes</b>	<b>The District prepared Project Potential Forms for fundraisers</b>
<b>2004-008</b>	<b>OMB Circular A-87, Attachment B, Section 8(h)(1)-The District expended funds for unallowable activities</b>	<b>Yes</b>	<b>The District only expended funds for allowable activities.</b>



**Auditor of State  
Betty Montgomery**

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**FREMONT CITY SCHOOL DISTRICT  
SANDUSKY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 4, 2006**