



Mary Taylor, CPA  
Auditor of State



**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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SHELBY COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Fort Loramie Local School District  
Shelby County  
575 Greenback Road  
PO Box 26  
Fort Loramie, Ohio 45845

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Loramie Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006, and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fort Loramie Local School District, Shelby County, as of June 30, 2006, and 2005 and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the years ended June 30, 2006, and 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

March 5, 2007

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The discussion and analysis of Ft. Loramie Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

Highlights for fiscal year 2006 are as follows:

- During fiscal year 2005, the school district attempted and failed to pass three tax levies for additional operating moneys. As a result, a number of cost-saving measures, including staff reductions, were enacted for fiscal 2006. On November 8, 2005, the district passed an additional .75 percent school district income tax for a period of four years beginning January 1, 2006, which is estimated to provide \$573,000 per year.
- Beginning with tax year 2005, the State of Ohio began a four-year phase-out of taxes collected on Tangible Personal Property. However, the district's Tangible Personal Property valuation increased approximately 28 percent from tax year 2004 through 2005, more than offsetting the 25 percent phase-out reduction in valuation. Contrary to expectation, revenues from Tangible Personal Property taxes in fiscal year 2006 exceeded those from the previous year.
- A reappraisal of real estate property occurred for tax year 2005 in Shelby County; thereby, increasing property tax receipts for all inside mills.
- Negotiated agreements with teaching and classified staff had expired with the 2004-2005 school year. Both bargaining groups agreed to one-year contracts, with no increase in base pay rates for the 2005-2006 school year. In August 2006, contracts with both groups were reached for the 2006-2007 and 2007-2008 school years. The base salary for teaching staff will increase of 2.75 percent in each year. The base wage rate for classified staff will increase 2 percent in fiscal year 2007 with an additional experience step and will increase 2.75 percent in fiscal year 2008.

**Using This Annual Report**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

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 Ft. Loramie Local School District, the General Fund and Bond Retirement debt service 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 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may 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 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, extracurricular activities, capital outlay, and debt service disbursements.

**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 governmental funds are the General Fund and Bond Retirement debt service fund.

**Governmental Funds** - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using cash basis accounting. 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**The School District As A Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

**Table 1  
Net Assets**

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets:</b>		
Cash and Cash Equivalents	\$2,023,511	\$1,157,895
<b>Net Assets:</b>		
Restricted	\$846,598	\$664,174
Unrestricted	1,176,913	493,721
Total Net Assets	\$2,023,511	\$1,157,895

Total net assets increased \$865,616, or 75 percent. The primary reasons contributing to the increase in cash balances are as follows:

- The School District received one quarter of the .75 percent school district income tax, that began collections on January 1, 2006.
- Shelby County reappraised real property for tax year 2005 that began collection on January 1, 2006.
- Employee salaries were frozen for fiscal year 2006, along with savings from staff reduction.

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

**Table 2  
Change in Net Assets**

	<b>2006</b>	<b>2005</b>
<b>Receipts:</b>		
Program Receipts		
Charges for Services	\$ 488,279	\$ 380,222
Operating Grants, Contributions, and Interest	505,516	460,337
Capital Grants and Contributions	20,838	12,016
Total Program Receipts	1,014,633	852,575
<b>General Receipts</b>		
Property Taxes	\$2,278,356	\$1,906,915
Income Taxes	679,083	572,783
Grants and Entitlements	3,399,795	3,335,461
Interest	60,180	24,983
Miscellaneous	33,854	23,723
Total General Receipts	6,451,268	5,863,865
Total Receipts	7,465,901	6,716,440

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Table 2  
Change in Net Assets  
(Continued)**

	<u>2006</u>	<u>2005</u>
<b>Disbursements:</b>		
<b>Instruction:</b>		
Regular	2,993,860	3,135,791
Special	338,310	333,209
Vocational	3,764	64,641
<b>Support Services:</b>		
Pupils	466,744	476,760
Instructional Staff	334,459	343,327
Board of Education	16,886	24,368
Administration	544,866	523,059
Fiscal	180,324	171,860
Business	637	630
Operation and Maintenance of Plant	532,029	526,621
Pupil Transportation	186,100	297,123
Central	50,683	52,132
Non-instructional Services	239,731	234,969
Extracurricular Activities	298,799	313,091
<b>Debt Service:</b>		
Principal Retirement	170,000	165,000
Interest and Fiscal Charges	243,093	250,254
Total Disbursements	<u>6,600,285</u>	<u>6,912,835</u>
Increase (Decrease) in Net Assets	865,616	(196,395)
Net Assets at Beginning of Year	<u>1,157,895</u>	<u>1,354,290</u>
Net Assets at End of Year	<u>\$2,023,511</u>	<u>\$1,157,895</u>

Program receipts represent almost 14 percent of total receipts and are almost evenly split between charges for services and restricted operating grants, contributions, and interest receipts. This is comparable to fiscal year 2005.

Other general receipts represent 86 percent of the School District's total receipts. The voters passed an additional .75 percent school income tax levy in November 2005. The School District received a first quarter payment in fiscal year 2006. The School District also more interest receipts from rising interest rates. Shelby County reappraised real property for tax year 2005 with collections beginning on January 1, 2006.

The instruction program disbursements accounted for 51 percent of all disbursements, which is comparable to fiscal year 2005. Other programs which support the instruction process including pupils, instructional staff, pupil transportation, and central account for approximately 16 percent of governmental disbursements, a decrease of 1 percent from fiscal year 2005. Maintenance of the School District's facilities represents an additional 8 percent of program costs comparable with fiscal year 2005.

Beginning in fiscal year 2006, the School District entered a satellite arrangement with Upper Valley Joint Vocational School to provide its vocational program. As a result, the only disbursements incurred for vocational instruction were those involved in closing the prior year's program.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

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 receipts and unrestricted state entitlements.

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Instruction:</b>				
Regular	\$2,993,860	\$3,135,791	\$2,830,929	\$2,982,980
Special	338,310	333,209	(34,129)	16,298
Vocational	3,764	64,641	3,582	59,849
<b>Support Services:</b>				
Pupils	466,744	476,760	426,624	449,443
Instructional Staff	334,459	343,327	334,459	343,327
Board of Education	16,886	24,368	16,886	24,368
Administration	544,866	523,059	544,866	523,059
Fiscal	180,324	171,860	180,324	171,860
Business	637	630	637	630
Operation and Maintenance of Plant	532,029	526,621	523,079	526,621
Pupil Transportation	186,100	297,123	173,712	284,392
Central	50,683	52,132	50,683	47,132
Non-instructional Services	239,731	234,969	(27,165)	(10,974)
Extracurricular Activities	298,799	313,091	148,072	226,021
<b>Debt Service:</b>				
Principal Retirement	170,000	165,000	170,000	165,000
Interest and Fiscal Charges	243,093	250,254	243,093	250,254
<b>Total Disbursements</b>	<b><u>\$6,600,285</u></b>	<b><u>\$6,912,835</u></b>	<b><u>\$5,585,652</u></b>	<b><u>\$6,060,260</u></b>

Disbursements for Regular Instruction decreased with the reduction of teaching staff. Beginning in fiscal year 2006, the School District entered a satellite arrangement with Upper Valley Joint Vocational School to provide its vocational program.

General receipts provided 85 percent of the resources necessary to finance school activities in fiscal year 2006, as compared to 87 percent in fiscal year 2005.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**The School District's Funds**

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund and the Bond Retirement debt service fund. Due to the reduction in staffing levels and the change in health plans in past fiscal years, along with the collection of the additional .75 percent income tax receipts and property tax receipts from increase appraised valuations in fiscal year 2006, the School District had a positive excess of revenues over expenditures, in the amount of \$683,192 in the General Fund.

The Bond Retirement debt service fund property taxes were sufficient to cover the principal and interest payments for the fiscal year.

**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.

For the General Fund, final budgeted revenues remained unchanged from the School District's original estimates. The original appropriations were decreased 1 percent from fiscal year 2005 expenditures based on reductions in staff and other cost containment measures.

Final appropriations were increased \$94,727 or 1.5 percent, subsequent to levy passage in November. Total expenditures of \$5,743,058 remained below the total original appropriations. The variance is mostly attributed to spending cuts and deferral of capital purchases. Year-end encumbrances include two school buses, to be delivered in fiscal year 2007.

**Current Issues**

The School District passed an additional .75 percent school district income tax levy for four years on the ballot in November 2006 to generate \$573,000 in additional revenues per year. Prior to passage of this levy, the School District enacted a number of cost containment measures for fiscal year 2006, including staff cuts, program reductions, and fees for student participation in extra-curricular activities.

Personal Tangible Tax collections in fiscal year 2006 were \$202,332 greater than in fiscal year 2005, which included \$106,164 that had been collected but undistributed on June 30, 2005. Figures received from the Shelby County Auditor revealed \$114,809 in collected personal property taxes on June 30, 2006, due to late filing of personal property tangible tax returns in the spring of 2006. This late filing was received in fiscal year 2007.

Revenues received from the school district income tax increased \$106,300 during the fiscal year, about 18 percent from the prior fiscal year. It is estimated that \$76,300 of this increase was the result of the additional .75 percent income tax levy which went into effect on January 1, 2006.

On August 22, 2006, the School District issued school improvement general obligation bonds, in the amount of \$4,909,998.45, to refund the 1998 school improvement general obligation bonds, in the amount of \$4,910,000. The School District contributed \$200,000 to defease the general obligation bonds. The School District is still responsible for the payment of the capital appreciation bonds of the 1998 bond issue which are due on December 31, 2006, 2007, and 2008.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

As a result of continued growth in the district's property tax base and the refunding of the 1998 general obligation bonds, the School District requested that the Shelby County budget commission reduce the millage collected for Bond Retirement from 6.9 mills to 5 mills, effective for taxes collected in calendar year 2007.

During the year, the Ohio School Facilities Commission informed the district that it would be eligible for the Classroom Facilities Assistance Program, with State of Ohio providing \$10,417,811, (about 69 percent of eligible construction costs). Conditional approval was granted by the State Controlling Board in July 2006. On November, 7, 2006, School District voters approved a tax levy for this project, consisting of a bond levy for \$5,426,371 in school improvement bonds for 29 years, a .5 mill maintenance levy for 23 years, and 1.9 mills permanent improvement levy for a continuing period of time.

On November 20, 2006, the Board of Education authorized the issuance of bond anticipation notes in an amount not to exceed \$5,426,371 for the local share of this project. These notes are scheduled to be sold on or about December 12, 2006 and to mature in not more than 9 months.

**Request For Information**

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Julianne Simon, 575 Greenback Road, PO Box 26, Fort Loramie, Ohio 45845.

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**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2006**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,023,511</u>
<b>Net Assets</b>	
<b>Restricted for:</b>	
Debt Service	623,110
Capital Projects	58,977
Other Purposes	164,511
Unrestricted	<u>1,176,913</u>
Total Net Assets	<u><u>\$2,023,511</u></u>

*See accompanying notes to the basic financial statements.*



**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,176,913	\$623,110	\$223,488	\$2,023,511
<b>Fund Balances</b>				
Reserved for Encumbrances	\$232,010		\$22,568	\$254,578
Unreserved, Reported in				
General Fund	944,903			944,903
Special Revenue Funds			141,943	141,943
Debt Service Fund		623,110		623,110
Capital Projects Funds			58,977	58,977
Total Fund Balances	<u>\$1,176,913</u>	<u>\$623,110</u>	<u>\$223,488</u>	<u>\$2,023,511</u>

*See accompanying notes to the basic financial statements.*

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
OR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
<b>Receipts</b>				
Property Taxes	\$1,765,738	\$512,618		\$2,278,356
Income Taxes	679,083			679,083
Intergovernmental	3,529,260	56,806	\$307,013	3,893,079
Interest	58,288		2,833	61,121
Tuition and Fees	130,215		1,896	132,111
Charges for Services	5,625		226,267	231,892
Extracurricular Activities			124,276	124,276
Gifts and Donations	17,886		14,243	32,129
Miscellaneous	14,040		19,814	33,854
Total Receipts	<u>6,200,135</u>	<u>569,424</u>	<u>696,342</u>	<u>7,465,901</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,950,922		42,938	2,993,860
Special	290,813		47,497	338,310
Vocational	3,764			3,764
<b>Support Services:</b>				
Pupils	334,147		132,597	466,744
Instructional Staff	289,797		44,662	334,459
Board of Education	16,886			16,886
Administration	526,493		18,373	544,866
Fiscal	168,922	10,806	596	180,324
Business	637			637
Operation and Maintenance of Plant	507,301		24,728	532,029
Pupil Transportation	180,733		5,367	186,100
Central	40,421		10,262	50,683
Noninstructional Services			239,731	239,731
Extracurricular Activities	200,212		98,587	298,799
<b>Debt Service:</b>				
Principal Retirement		170,000		170,000
Interest and Fiscal Charges		243,093		243,093
Total Disbursements	<u>5,511,048</u>	<u>423,899</u>	<u>665,338</u>	<u>6,600,285</u>
Excess of Receipts Over Disbursements	<u>689,087</u>	<u>145,525</u>	<u>31,004</u>	<u>865,616</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	2,988		4,883	7,871
Advances Out	(4,883)		(2,988)	(7,871)
Transfers In			4,000	4,000
Transfers Out	(4,000)			(4,000)
Total Other Financing Sources (Uses)	<u>(5,895)</u>		<u>5,895</u>	
Changes in Fund Balances	683,192	145,525	36,899	865,616
Fund Balances at Beginning of Year	<u>493,721</u>	<u>477,585</u>	<u>186,589</u>	<u>1,157,895</u>
Fund Balances at End of Year	<u>\$1,176,913</u>	<u>\$623,110</u>	<u>\$223,488</u>	<u>\$2,023,511</u>

See accompanying notes to the basic financial statements.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
OR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b>Receipts</b>				
Property Taxes	\$1,368,450	\$1,368,450	\$1,765,738	\$397,288
Income Taxes	573,300	573,300	679,083	105,783
Intergovernmental	3,468,800	3,468,800	3,529,260	60,460
Interest	22,000	22,000	58,288	36,288
Tuition and Fees	115,006	115,006	130,215	15,209
Charges for Services	4,000	4,000	5,625	1,625
Gifts and Donations			17,886	17,886
Miscellaneous	3,200	3,200	14,040	10,840
Total Receipts	<u>5,554,756</u>	<u>5,554,756</u>	<u>6,200,135</u>	<u>645,379</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,993,632	2,984,790	2,890,622	94,168
Special	292,585	297,224	290,890	6,334
Vocational	3,827	3,827	3,764	63
Other	82,800	82,800	74,539	8,261
<b>Support Services:</b>				
Pupils	361,003	347,932	336,010	11,922
Instructional Staff	312,222	313,715	293,013	20,702
Board of Education	28,097	31,503	24,575	6,928
Administration	524,025	536,411	529,477	6,934
Fiscal	152,976	170,316	170,312	4
Business	1,277	1,277	1,276	1
Operation and Maintenance of Plant	574,883	573,700	556,994	16,706
Pupil Transportation	282,956	352,636	329,244	23,392
Central	40,725	41,725	41,276	449
Extracurricular Activities	202,192	205,188	201,066	4,122
Total Disbursements	<u>5,853,200</u>	<u>5,943,044</u>	<u>5,743,058</u>	<u>199,986</u>
Excess of Receipts Over (Under) Disbursements	<u>(298,444)</u>	<u>(388,288)</u>	<u>457,077</u>	<u>845,365</u>
<b>Other Financing Uses</b>				
Advances In			2,988	2,988
Advances Out		(4,883)	(4,883)	
Transfers Out	(4,200)	(4,200)	(4,000)	200
Total Other Financing Uses	<u>(4,200)</u>	<u>(9,083)</u>	<u>(5,895)</u>	<u>3,188</u>
Changes in Fund Balance	(302,644)	(397,371)	451,182	848,553
Fund Balance at Beginning of Year	435,206	435,206	435,206	
Prior Year Encumbrances Appropriated	58,516	58,516	58,516	
Fund Balance at End of Year	<u>\$191,078</u>	<u>\$96,351</u>	<u>\$944,904</u>	<u>\$848,553</u>

See accompanying notes to the basic financial statements.

FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$43,187</u>
<b>Net Assets</b>	
Held for Students	\$42,282
Held for Staff	<u>905</u>
Total Net Assets	<u>\$43,187</u>

*See accompanying notes to the basic financial statements.*

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Fort Loramie Local School District (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 through the consolidation of existing land areas and school districts. The School District serves an area of approximately forty-six square miles. It is located in Shelby and Darke Counties. In terms of enrollment, the School District was the 535th largest in the State of Ohio (among 612 school districts) in fiscal year 2006. It is staffed by thirty-two classified employees, fifty-three certified teaching personnel, and six administrative employees who provide services to 834 students and other community members. The School District currently operates two instructional/support buildings.

**A. 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 Fort Loramie Local School District, this includes general operations, food service, 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 Fort Loramie Local School District.

The School District participates in five jointly governed organizations and three insurance pools. These organizations are presented in Notes 13 and 14 to the basic financial statements. These organizations are:

**Jointly Governed Organizations:**

- Shelby County Local Professional Development Committee
- Southwestern Ohio Educational Purchasing Council
- Upper Valley Joint Vocational School
- West Central Ohio Special Education Regional Resource Center
- Western Ohio Computer Organization

**Insurance Purchasing Pools:**

- Ohio Association of School Business Officials' Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Ohio School Insurance Program

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principals included all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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.

**1. 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 statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

**2. 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. Non-major funds are aggregated and presented in a single column. 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 divided into two categories, governmental and fiduciary.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**1. Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The School District's major funds are the General Fund and Bond Retirement debt service 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.

**Bond Retirement Fund** - The Bond Retirement debt service fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the high school general obligation bonds.

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

**2. Fiduciary Funds**

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 did not have any private purpose trust funds. 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 staff generated revenues for non-instructional activities and various student-managed activities.

**C. Basis of Accounting**

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the revised tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The revised tax budget demonstrates a need for existing or increased tax rates. 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 control selected by the Board is the fund and function level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the 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 appropriations 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 appropriations 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.

**E. 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".

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$58,288 which includes \$33,807 assigned from other School District funds.

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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**F. 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.

**G. Capital Assets**

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

**H. Compensated Absences**

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

**I. Long-Term Obligations**

Modified cash basis financial statements do not report liabilities for bonds. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**J. Net 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. The School District did not have any net assets restricted by enabling legislation at June 30, 2006.

**K. Fund Balance Reserves and Designations**

The School District reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**L. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,985,180 of the School District's bank balance of \$2,185,180 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**4. 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 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. PROPERTY TAXES (Continued)**

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2005, were levied after April 1, 2006, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. 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 Shelby and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2006 taxes were collected are:

	<b>2005 Second- Half Collections</b>		<b>2006 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Real Estate	\$64,102,650	88.99%	\$71,080,700	90.25%
Public Utility	2,191,070	3.04	2,178,300	2.76
Tangible Personal	5,741,570	7.97	5,503,616	6.99
Total Assessed Value	<u>\$72,035,290</u>	<u>100.00%</u>	<u>\$78,762,616</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$43.90		\$43.90	

**5. INCOME TAX**

The School District levies a voted tax of .75 percent for general operations on the income of residents and estates. Initially, the tax was effective on January 1, 1995 through December 1999. In May 1999 and March 2005, the tax has been renewed for additional five-year periods, effective through December 31, 2009. 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. 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 2006, the School District contracted for the following insurance coverage.

Ohio School Plan	
Building and Contents - Replacement cost (\$1,000 deductible - 100% co-insurance)	\$18,378,500
Inland Marine Coverage (\$500 deductible)	992,138
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Medical Payments per person	5,000
General Liability	
Per occurrence	3,000,000
Annual Aggregate	5,000,000

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

For fiscal year 2006, 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.

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the 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, Gates McDonald and Company, 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. Gates McDonald and Company provides administrative, cost control, and actuarial services to the Plan.

**7. 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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, 2006, 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, 2006, 2005, and 2004 was \$402,654, \$421,050, and \$402,905, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$453 made by the School District and \$431 made by plan members.

**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, 2006, 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 2006 was 14 percent of annual covered payroll; 10.58 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$80,060, \$82,365, and \$67,746, respectively; 44 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

**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, 2006, three of the five Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**8. POST-EMPLOYMENT 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 2006, 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 \$28,761.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,862,184, and STRS had 119,184 eligible benefit recipients.

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

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$37,388 for fiscal year 2006.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

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, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently eligible to receive health care benefits.

**9. 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 ten to twenty days of vacation per year, depending upon length of service. The technology coordinator earns twenty days of vacation per year. Accumulated unused vacation time is paid to classified employees annually and the technology coordinator 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. All employees may accumulate an unlimited number of sick leave days. Upon retirement, payment is made for 23 percent of a maximum of two hundred twenty-five days of their accrued, but unused sick leave credit to a maximum of fifty-one and three-quarter (51.75) days for all employees.

**B. Health Care Benefits**

The School District provides medical/surgical benefits and dental insurance to most employees through the Shelby County Schools Consortium, which currently purchases these coverages from Anthem Life Insurance of Indiana and Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium for health/surgical coverage with the Board, the premium varying for each employee depending on the terms of the union contracts. Optical Insurance is provided by the School District to most employees through Vision Plus of America. The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**10. LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
1998 School Facilities Issue					
Serial and Term Bonds					
3.70 - 5.00%	\$5,080,000	\$0	\$170,000	\$4,910,000	
Capital Appreciation Bonds					
16.25 -19%	109,945	0	0	109,945	\$38,500
Long-Term Obligations	<u>\$5,189,945</u>	<u>\$0</u>	<u>\$170,000</u>	<u>\$5,019,945</u>	<u>\$38,500</u>

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**1998 School Facilities Issue**

On July 28, 1998, the Board of Education issued bonds \$6,049,946 in voted general obligation bonds for the purpose of constructing, improving and making additions to school buildings and related site development, under special needs provisions of Section 133.06(E) Revised Code. The bond issue included serial, term and capital appreciation bonds in the amount of \$2,970,000; \$2,970,000; and \$109,945; respectively. The bonds will be retired with a voted property tax levy received in the debt service fund.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to commence on December 1, 2016, (with the balance of \$270,000 to be paid at stated maturity on December 1, 2018) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$245,000
2017	255,000
2018	270,000

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to commence on December 1, 2019, (with the balance of \$400,000 to be paid at stated maturity on December 1, 2026) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2019	\$285,000
2020	295,000
2021	310,000
2022	325,000
2023	345,000
2024	360,000
2025	380,000

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

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

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5%
December 1, 2010 and thereafter	100.0%

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$525,000.

The School District's overall legal debt margin was \$2,340,121 with an unvoted debt margin of \$78,602 at June 30, 2006.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial and Term		Capital Appreciation	
	Principal	Interest	Principal	Interest
2007		\$ 239,438	\$ 38,500	\$136,500
2008		239,437	36,665	138,335
2009		239,438	34,780	140,220
2010	\$ 180,000	235,388		
2011	185,000	227,129		
2012-2016	1,075,000	993,938		
2017-2021	1,350,000	703,480		
2028-2026	1,720,000	323,750		
2027	400,000	10,000		
Totals	<u>\$4,910,000</u>	<u>\$3,211,998</u>	<u>\$109,945</u>	<u>\$415,055</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

**11. 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 2006.

	Textbooks	Capital Improvements	Budget Stabilization
Cash Balance as of June 30, 2005	(\$291,115)	(\$2,330,526)	\$105,624
Current Year Requirements	116,900	116,900	
Current Year Offsets		(512,618)	
Qualifying Disbursements	( 41,873)	(94,072)	(105,624)
Set-Aside Balances Carried forward to Future Fiscal Years	<u>(\$216,088)</u>	<u>(\$2,820,316)</u>	<u>\$ 0</u>

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. SET ASIDES (Continued)**

The School District had prior year carryovers and current year qualifying expenditures during the fiscal year for the Textbook and Capital Improvement reserves that reduced set-aside amounts below zero. This amount may be used to reduce the set aside requirements of future fiscal years.

On June 27, 2005, the Board of Education took action to release the balance in the Budget Stabilization set-aside for use during fiscal year 2006, in light of budget constraints anticipated at that time.

**12. INTERFUND TRANSFERS**

During fiscal year 2006, the General Fund made transfers to the EMIS special revenue fund, in the amounts of \$4,000, to subsidize the activity of this fund.

**13. JOINTLY GOVERNED ORGANIZATIONS**

**A. Western Ohio Computer Organization (WOCO)**

The Fort Loramie Local School District is a participant in the Western Ohio Computer Organization, which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. WOCO was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The superintendent of each member district is seated on the assembly which elects a Board of Directors for the consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of eleven members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

**B. Southwestern Ohio Educational Purchasing Council (SOEPC)**

The Southwestern Ohio Educational Purchasing Council (SOEPC) was established in 1986 to foster cooperation among educational entities located in southwestern Ohio. The SOEPC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. The SOEPC is governed by an elected Board consisting of 10 representatives of the educational entities and the Montgomery County Educational Service Center superintendent. The Board, except for the Superintendent of the Montgomery County Educational Service Center, is elected from an Assembly consisting of a representative from each participating educational entity.

Financial information can be obtained from the Ohio Educational Purchasing Council, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45337.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**C. Upper Valley Joint Vocational School**

The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from some of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Upper Valley Joint Vocational School, 8811 Career Drive, Piqua, Ohio 45356.

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

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

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

**E. Shelby County Local Professional Development Committee**

The School District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365

**14. INSURANCE PURCHASING POOLS**

**A. Shelby County Schools Consortium**

The Shelby County Schools Consortium (the Consortium) is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts as a group to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each district pays monthly premiums to the provider, currently Community Insurance Corporation, doing business as Anthem Blue Cross/Blue Shield and Anthem Life Insurance Company of Indiana. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the Shelby County Educational Service Center. Financial information can be obtained from The Pinnacle Advisory Group, 131 North Ludlow Street, Dayton, Ohio 45402.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**14. INSURANCE PURCHASING POOLS (Continued)**

**B. Ohio School Boards Association 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 School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**C. Ohio School Insurance Program**

The School District participates in the Ohio School Insurance Program (OSIP), an insurance purchasing pool. The Ohio School Insurance Program (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of School District superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

**15. 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, 2006.

**B. Litigation**

The School District had no pending litigation during fiscal year 2006.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**16. SUBSEQUENT EVENT**

On August 22, 2006, the School District issued \$4,909,998 in School Improvement general obligation refunding bonds with interest rates from 4 percent to 7.105 percent, to refund \$4,910,000 of 1998 School Improvement general obligation bonds. The School District contributed \$200,000 to defease the bonds. The net proceeds of \$5,080,045 (after payment of \$99,781 in underwriting fees, insurance, and other issuance costs, of which \$7,162 was refunded back to the School District) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded general obligation bonds. As a result, \$4,910,000 of the 1998 School Improvement general obligation bonds is considered to be defeased and those bonds are no longer considered to be an obligation of the School District.

Although the refunding will result in the recognition of an accounting gain of \$29,955 for the year ended June 30, 2007, the School District in effect lowered its aggregated debt service payments by \$318,361 over the next twenty-one years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$186,918.

On November 7, 2006, the voters of the School District approved a tax levy authorizing a bond issue of \$5,426,371 for a period of 29 years, plus additional millage for Permanent Improvements (1.9 mills) and Classroom Facilities Maintenance (.5 mill). This levy allows the district to partner with the Ohio School Facilities Commission in construction of a school building to house Pre-Kindergarten through Sixth Grade and in renovation of the current Junior/Senior High School building.

As a result of the levy passage, the School District issued \$5,426,371 in Classroom Facilities Bond Anticipation Notes on December 21, 2006, with a coupon rate of 4.39 percent to mature on May 10, 2007. Cost of issuance was \$11,105. Proceeds of the levy provided the local share of the basic Classroom Facilities project.

On March 7, 2007, the School District issued Classroom Facilities Bonds in the amount of \$5,425,999, with a final maturity of December 31, 2035. Average interest rate is estimated at 4.37 per cent over the life of the issue. Cost of issuance was \$105,012. The proceeds will be used to repay the Bond Anticipation Notes issued on December 21, 2006.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of Fort Loramie School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Key highlights for fiscal year 2005 are as follows:

- During fiscal year 2005, the Board of Education proposed three operating issues which were defeated at the polls. These issues sought to eliminate deficits in the General Fund which were forecasted to occur for as early as fiscal 2006. While a number of cost-saving measures had been taken in fiscal years 2004 and 2005, a more extensive list of budget cuts and reductions were enacted in the face of the third defeat in May 2005. On November 8, 2005, the district passed an additional .75 percent school district income tax for a period of four years beginning January 1, 2006.
- The tax levies to pay the principal and interest payments for the high school addition were decreased from 7.9 mills to 6.9 mills, beginning with the collections for tax year 2004. Cash held in the debt service fund as of June 30, 2005, was sufficient to cover a full year of debt service obligation.
- Negotiated agreements with teaching and classified staff expired with the 2004-2005 school year. Negotiations were not completed by June 30, 2005. However, in the face of the district's financial situation, all parties agreed to one-year contracts, with no increase in base pay for the 2005-2006 school year.
- Employee health care costs increased 8.5 percent effective September 1, 2004.

**Using This Annual Report**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion with this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

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. The School District's major funds are the General Fund and Bond Retirement debt service fund.

**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, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may 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 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, food services, extracurricular activities, and capital outlay disbursements.

**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 governmental funds are the General Fund and Bond Retirement debt service 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 those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis accounting. 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.

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

**Government-Wide Financial Analysis**

Table 1 provides a summary of the Career Center's net assets for fiscal year 2005 and 2004:

**Table 1  
Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets:</b>		
Cash and Cash Equivalents	\$1,157,895	\$1,354,290
<b>Net Assets:</b>		
Restricted	664,174	775,790
Unrestricted	493,721	578,500
Total Net Assets	\$1,157,895	\$1,354,290

The School District's current and other assets decreased from spending a significant portion of the carryover balances of the General Fund to maintain the current educational program. The School District proposed three operating issues during the fiscal year without success. A fourth issue was passed in November 2005 but will not take effect until January 2006.

Table 2 reflects the change in net assets for fiscal year 2005. Since the School District did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2  
Change in Net Assets**

	<b>2005</b>
<b>Revenues</b>	
Program Revenues	
Charges for Services	\$ 380,222
Operating Grants, Contributions, and Interest	460,337
Capital Grants and Contributions	12,016
Total Program Revenues	852,575
<b>General Revenues</b>	
Property Taxes	1,906,915
Income Taxes	572,783
Grants and Entitlements not Restricted to Specific Program	3,335,461
Interest	24,983
Miscellaneous	23,723
Total General Revenues	5,863,865
Total Revenues	6,716,440

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Table 2  
Change in Net Assets  
(Continued)**

	<b>2005</b>
<b>Expenses</b>	
<b>Instruction:</b>	
Regular	3,135,791
Special	333,209
Vocational	64,641
<b>Support Services:</b>	
Pupils	476,760
Instructional Staff	343,327
Board of Education	24,368
Administration	523,059
Fiscal	171,860
Business	630
Operation and Maintenance of Plant	526,621
Pupil Transportation	297,123
Central	52,132
<b>Non-instructional Services</b>	234,969
Extracurricular Activities	313,091
Debt Service:	
Principal Retirement	165,000
Interest and Fiscal Charges	250,254
Total Expenses	6,912,835
Decrease in Net Assets	(\$ 196,395)

Program receipts represent 13 percent of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition, fees, and food service sales.

Property taxes, income taxes, and grants and entitlements basically make up the balance of the School District's general receipts.

The major program disbursements for governmental activities are for instruction, which accounts for 51 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, administration, and operation and maintenance of plant account for 27 percent of governmental disbursements.

**Governmental Activities**

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 receipts and unrestricted state entitlements.

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

**Table 3  
Governmental Activities**

	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2005</b>
<b>Instruction:</b>		
Regular	\$3,135,791	\$2,982,980
Special	333,209	16,298
Vocational	64,641	59,849
<b>Support Services:</b>		
Pupils	476,760	449,443
Instructional Staff	343,327	343,327
Board of Education	24,368	24,368
Administration	523,059	523,059
Fiscal	171,860	171,860
Business	630	630
Operation and Maintenance of Plant	526,621	526,621
Pupil Transportation	297,123	284,392
Central	52,132	47,132
Non-instructional Services	234,969	(10,974)
Extracurricular Activities	313,091	226,021
<b>Debt Service:</b>		
Principal Retirement	165,000	165,000
Interest and Fiscal Charges	250,254	250,254
<b>Total Disbursements</b>	<b>\$6,912,835</b>	<b>\$6,060,260</b>

87 percent of instructional activities were supported by tax receipts and unrestricted grants and entitlements. Special instruction activities are largely provided for through program receipts as a result of restricted operating grants received for special educational purposes.

Non-instructional services include food service activities. All of non-instructional services were covered by program receipts for fiscal year 2005. This is due to cafeteria sales and state and federal subsidies for food service.

Ticket sales for extracurricular activity programs provide for only 28 percent of total extracurricular activity disbursements.

**The School District's Funds**

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund and Bond Retirement debt service fund. Property tax revenues increased from fiscal year 2004. The School District received additional basic aid revenues during fiscal year 2005. Interest revenue increased significantly from interest rates which climbed steadily during the fiscal year.

Although the School District offered one less Kindergarten section and cuts were made in textbooks, instructional supplies, equipment, and library purchases, the School District expended \$238,969 in cash reserves in the General Fund to maintain adequate levels to provide instruction to students and maintain and operate the two instructional buildings.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Budgetary Highlights**

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of July. The School District's most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the School District amended its General Fund budget as needed.

For the General Fund, final budgeted revenues increased only \$2,422, (less than .05 percent) from the School District's original estimates. The original appropriations were increased 4.72 percent from fiscal year 2004 expenditures based on increases in salaries, insurance premiums (including health, building, property, and fleet), special education costs, and utilities.

Final appropriations were reduced \$45,025, or .7 percent, subsequent to levy failures in February and May. Total expenditures of \$5,920,821 remained below the total original appropriations. The variance is mostly attributed to spending cuts and deferral of capital purchases, including a school bus.

**Debt Administration**

**Debt** - The School District had one general obligation bond outstanding, in the amount of \$5,189,945 which will be repaid from voted property tax levies of 6.9 mills. Note 11 provides additional details regarding debt.

**Current Issues**

The School District placed three levies for additional operating funds during fiscal year 2005: (1) an additional .75 percent school district income tax levy for five years on the ballot in November 2004 to generate \$528,000 in additional revenues per year; (2) an additional 1.00 percent school district income tax levy for four years on the ballot in February 2005 to generate \$733,000 in additional revenues per year; (3) an emergency property tax levy to raise \$713,000 each year for four years in May 2005. Each of these levies failed. The School District ran an additional .75 percent school district income tax levy for four years on the ballot in November 2005 to generate \$573,000 in additional revenues per year. This levy passed.

Prior to passage of the November 2005 levy, the School District enacted a number of cost containment measures for fiscal year 2006, including staff cuts, program reductions, and fees for student participation in extra-curricular activities. These measures, added to the resignation or retirement of several staff members, are anticipated to reduce expenditure of cash reserves by \$300,000 during fiscal year 2006.

Personal Tangible Tax collections in fiscal year 2005 were \$39,163 less than in fiscal year 2004. The reduction in the debt service tax levy accounted to a portion of this decline. However, figures received from the Shelby County Auditor revealed \$106,164 in collected personal property taxes on June 30, 2005, due to late filing of personal property tangible tax returns in the spring of 2005. This late filing was received in fiscal year 2006.

Revenues from the school district income tax increased \$52,426, about 10 percent, from the prior fiscal year, after two years of decline.

**Request For Information**

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Julianne Simon, 575 Greenback Road, PO Box 26, Fort Loramie, Ohio 45845.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2005**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,157,895</u>
<b>Net Assets</b>	
<b>Restricted for:</b>	
Debt Service	477,585
Capital Projects	70,658
Other Purposes	115,931
Unrestricted	<u>493,721</u>
Total Net Assets	<u><u>\$1,157,895</u></u>

*See accompanying notes to the basic financial statements.*



**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$385,242	\$477,585	\$186,589	\$1,049,416
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	108,479			108,479
<b>Total Assets</b>	<u>\$493,721</u>	<u>\$477,585</u>	<u>\$186,589</u>	<u>\$1,157,895</u>
<b>Fund Balances</b>				
Reserved for Budget Stabilization	105,624			105,624
Reserved for Bus Purchases	2,855			2,855
Reserved for Encumbrances	58,516		19,848	78,364
Unreserved, Reported in				
General Fund	326,726			326,726
Special Revenue Funds			96,383	96,383
Debt Service Fund		477,585		477,585
Capital Projects Funds			70,358	70,358
<b>Total Fund Balances</b>	<u>\$493,721</u>	<u>\$477,585</u>	<u>\$186,589</u>	<u>\$1,157,895</u>

*See accompanying notes to the basic financial statements.*

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>General</b>	<b>Bond Retirement</b>	<b>Other Governmental</b>	<b>Total</b>
<b>Receipts</b>				
Property Taxes	\$1,442,067	\$464,848		\$1,906,915
Income Taxes	572,783			572,783
Intergovernmental	3,476,568	59,218	\$237,462	3,773,248
Interest	23,296		2,106	25,402
Tuition and Fees	79,171		1,990	81,161
Charges for Services	4,070		211,262	215,332
Extracurricular Activities			83,729	83,729
Gifts and Donations	9,463		24,684	34,147
Miscellaneous	9,053		14,670	23,723
<b>Total Receipts</b>	<b>5,616,471</b>	<b>524,066</b>	<b>575,903</b>	<b>6,716,440</b>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,091,516		44,275	3,135,791
Special	317,323		15,886	333,209
Vocational	64,641			64,641
<b>Support Services:</b>				
Pupils	343,878		132,882	476,760
Instructional Staff	303,337		39,990	343,327
Board of Education	24,368			24,368
Administration	505,527		17,532	523,059
Fiscal	162,117	9,262	481	171,860
Business	630			630
Operation and Maintenance of Plant	506,089		20,532	526,621
Pupil Transportation	282,124		14,999	297,123
Central	42,263		9,869	52,132
Noninstructional Services			234,969	234,969
Extracurricular Activities	211,404		101,687	313,091
<b>Debt Service:</b>				
Principal Retirement		165,000		165,000
Interest and Fiscal Charges		250,254		250,254
<b>Total Disbursements</b>	<b>5,855,217</b>	<b>424,516</b>	<b>633,102</b>	<b>6,912,835</b>
Excess of Receipts Over (Under) Disbursements	(238,746)	99,550	(57,199)	(196,395)
<b>Other Financing Sources (Uses)</b>				
Advances In	1,017		2,988	4,005
Advances Out	(2,988)		(1,017)	(4,005)
Transfers In			4,100	4,100
Transfers Out	(4,100)			(4,100)
<b>Total Other Financing Sources (Uses)</b>	<b>(6,071)</b>		<b>6,071</b>	
Changes in Fund Balances	(244,817)	99,550	(51,128)	(196,395)
Fund Balances at Beginning of Year	738,538	378,035	237,717	1,354,290
Fund Balances at End of Year	<u>\$493,721</u>	<u>\$477,585</u>	<u>\$186,589</u>	<u>\$1,157,895</u>

See accompanying notes to the basic financial statements.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>		<b>(Under)</b>
<b>Revenues</b>				
Property Taxes	\$1,462,800	\$1,462,800	\$1,442,067	(\$20,733)
Income Taxes	525,500	525,500	572,783	47,283
Intergovernmental	3,341,130	3,341,130	3,476,568	135,438
Interest	16,700	16,700	23,296	6,596
Tuition and Fees	72,162	74,584	79,171	4,587
Rent	3,650	3,650	2,779	(871)
Gifts and Donations			9,463	9,463
Charges for Services	4,500	4,500	4,070	(430)
Miscellaneous	750	750	2,048	1,298
<b>Total Revenues</b>	<b>5,427,192</b>	<b>5,429,614</b>	<b>5,612,245</b>	<b>182,631</b>
<b>Expenditures</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,031,345	3,026,733	3,016,659	10,074
Special	343,076	323,282	317,474	5,808
Vocational	63,063	65,542	64,641	901
Other	48,300	92,271	89,053	3,218
<b>Support Services:</b>				
Pupils	356,632	350,840	346,678	4,162
Instructional Staff	320,323	318,673	310,710	7,963
Board of Education	35,426	32,934	28,568	4,366
Administration	519,702	520,023	510,893	9,130
Fiscal	164,686	166,659	162,722	3,937
Business	630	1,268	1,267	1
Operation and Maintenance of Plant	552,079	537,182	521,567	15,615
Pupil Transportation	339,650	291,973	289,283	2,690
Central	41,633	42,263	42,263	
Extracurricular Activities	212,348	214,225	211,667	2,558
Capital Outlay	10,016	10,016	4	10,012
<b>Total Expenditures</b>	<b>6,038,909</b>	<b>5,993,884</b>	<b>5,913,449</b>	<b>80,435</b>
Excess of Revenues Under Expenditures	(611,717)	(564,270)	(301,204)	263,066
<b>Other Financing Sources (Uses)</b>				
Proceed from Sale Fixed Assets			90	90
Refund of Prior Year Expenditures	300	300	4,136	3,836
Advances In			1,017	1,017
Refund of Prior Year Receipts		(284)	(284)	
Advances Out	(3,000)	(4,100)	(4,100)	
Transfers Out		(2,988)	(2,988)	
<b>Total Other Financing Sources (Uses)</b>	<b>(2,700)</b>	<b>(7,072)</b>	<b>(2,129)</b>	<b>4,943</b>
<b>Net Change in Fund Balance</b>	<b>(614,417)</b>	<b>(571,342)</b>	<b>(303,333)</b>	<b>268,009</b>
Fund Balance at Beginning of Year	624,636	624,636	624,636	
Prior Year Encumbrances Appropriated	113,902	113,902	113,902	
<b>Fund Balance at End of Year</b>	<b>\$124,121</b>	<b>\$167,196</b>	<b>\$435,205</b>	<b>\$268,009</b>

FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$53,051</u>
<b>Net Assets</b>	
Held for Students	\$52,162
Held for Others	<u>889</u>
Total Net Assets	<u>\$53,051</u>

*See accompanying notes to the basic financial statements.*

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

Fort Loramie Local School District (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 through the consolidation of existing land areas and school districts. The School District serves an area of approximately forty-two square miles. It is located in Shelby and Darke Counties. In terms of enrollment, the School District was the 543rd largest in the State of Ohio (among 612 school districts) in fiscal year 2005. It is staffed by thirty-two classified employees, fifty-four certified teaching personnel, and five administrative employees who provide services to 844 students and other community members. The School District currently operates two instructional/support buildings.

**A. 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 Fort Loramie Local School District, this includes general operations, food service, 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 Fort Loramie Local School District.

The School District participates in five jointly governed organizations and three insurance pools. These organizations are presented in Notes 14 and 15 to the basic financial statements. These organizations are:

**Jointly Governed Organizations:**

- Shelby County Local Professional Development Committee
- Southwestern Ohio Educational Purchasing Council
- Upper Valley Joint Vocational School
- West Central Ohio Special Education Regional Resource Center
- Western Ohio Computer Organization

**Insurance Purchasing Pools:**

- Ohio Association of School Business Officials' Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Ohio School Insurance Program

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principals included all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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.

**1. 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 statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

**2. 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. Non-major funds are aggregated and presented in a single column. 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 divided into two categories, governmental and fiduciary.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**1. Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The School District's major funds are the General Fund and Bond Retirement debt service 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.

**Bond Retirement Fund** - The Bond Retirement debt service fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the high school general obligation bonds.

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

**2. Fiduciary Funds**

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 did not have any private purpose trust funds. 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 staff generated revenues for non-instructional activities and various student-managed activities.

**C. Basis of Accounting**

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the revised tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The revised tax budget demonstrates a need for existing or increased tax rates. 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 control selected by the Board is the fund and function level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the 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.

**E. 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".

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$23,296 which includes \$13,455 assigned from other School District funds.

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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**F. 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 bus purchases and budget stabilization.

**G. Capital Assets**

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

**H. Compensated Absences**

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

**I. Long-Term Obligations**

Cash basis financial statements do not report liabilities for bonds. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**J. Net 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. The School District did not have any net assets restricted by enabling legislation at June 30, 2005.

**K. Fund Balance Reserves and Designations**

The School District reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for budget stabilization, bus purchases, and encumbrances.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**L. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the District revised its financial statement presentation comparable to the requirements of Governmental Accounting Standard No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosure” and GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”, and GASB Technical Bulletin 2004-2, “Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”. GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**4. DEPOSITS AND INVESTMENTS**

Monies held by the School District are classified by State statute into three categories.

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

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

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

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,282,637 of the School District's bank balance of \$1,482,637 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**5. 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 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 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 Shelby and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**5. PROPERTY TAXES (Continued)**

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

	<b>2004 Second- Half Collections</b>		<b>2005 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Real Estate	\$62,496,010	89.00%	\$64,102,650	88.99%
Public Utility	2,194,090	3.13	2,191,070	3.04
Tangible Personal	5,529,261	7.87	5,741,570	7.97
Total Assessed Value	<u>\$70,219,361</u>	<u>100.00%</u>	<u>\$72,035,290</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.90		\$43.90	

**6. INCOME TAX**

The School District levies a voted tax of 3/4 percent for general operations on the income of residents and estates. Initially, the tax was effective on January 1, 1995 through December 1999. In May 1999 and March 2005, the tax has been renewed for additional five-year periods, effective through December 31, 2009. 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.

**7. 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.

Indiana Insurance	
Building and Contents - Replacement cost (\$2,500 deductible - 90% co-insurance)	\$15,983,000
Inland Marine Coverage (\$500 deductible)	942,588
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Medical Payments per person	5,000
Ohio School Plan	
General Liability	
Per occurrence	\$3,000,000
Annual Aggregate	\$5,000,000

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

For fiscal year 2005, the 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

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.

**8. 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.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$564,600, \$541,179, and \$528,524 respectively; 84 percent has been contributed for fiscal year 2005 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 \$1,706 made by the School District and \$8,637 made by plan members.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$421,050, \$402,905, and \$383,553, respectively; 85 percent has been contributed for fiscal year 2005 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 \$953 made by the School District and \$1,115 made by plan members.

**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; 10.57 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 were \$82,365, \$67,746, and \$56,376, respectively; 52 percent has been contributed for fiscal year 2005 and 100 percent has been contributed 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, 3 of the 5 Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**9. POST-EMPLOYMENT 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 \$43,562.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 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 \$38,581 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, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**10. 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 ten to twenty days of vacation per year, depending upon length of service. The technology coordinator earns twenty days of vacation per year. Accumulated unused vacation time is paid to classified employees annually and the technology coordinator upon termination of employment. Teachers do not earn vacation time.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**10. OTHER EMPLOYEE BENEFITS (Continued)**

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. All employees may accumulate an unlimited number of sick leave days. Upon retirement, payment is made for 23 percent of a maximum of 225 of their accrued, but unused sick leave credit to a maximum of fifty-one and three-quarter (51.75) days for all employees.

**B. Health Care Benefits**

The School District provides medical/surgical benefits, and dental insurance to most employees through the Shelby County Schools Consortium, which currently purchases these coverages from Anthem Life Insurance of Indiana and Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium for health/surgical coverage with the Board, the premium varying for each employee depending on the terms of the union contracts. Optical Insurance is provided by the School District to most employees through Vision Plus of America. The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**11. LONG-TERM OBLIGATIONS**

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
1998 School Facilities Issue					
Serial and Term Bonds	\$5,245,000	\$0	\$165,000	\$5,080,000	\$170,000
3.70 - 5.00%					
Capital Appreciation Bonds					
16.25 -19%	109,945	0	0	109,945	0
Long-Term Obligations	<u>\$5,345,945</u>	<u>\$0</u>	<u>\$165,000</u>	<u>\$5,189,945</u>	<u>\$170,000</u>

**1998 School Facilities Issue**

On July 28, 1998, the Board of Education issued bonds \$6,049,946 in voted general obligation bonds for the purpose of constructing, improving and making additions to school buildings and related site development, under special needs provisions of Section 133.06(E) Revised Code. The bond issue included serial, term and capital appreciation bonds in the amount of \$2,970,000; \$2,970,000; and \$109,945; respectively. The bonds will be retired with a voted property tax levy received in the debt service fund.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to commence on December 1, 2016, (with the balance of \$270,000 to be paid at stated maturity on December 1, 2018) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

<u>Year</u>	<u>Amount</u>
2016	\$245,000
2017	255,000
2018	270,000

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to commence on December 1 2019, (with the balance of \$400,000 to be paid at stated maturity on December 1, 2026) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2019	\$285,000
2020	295,000
2021	310,000
2022	325,000
2023	345,000
2024	360,000
2025	380,000

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

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

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5%
December 1, 2010 and thereafter	100.0%

The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$525,000.

The School District's overall legal debt margin was \$1,770,816 with an unvoted debt margin of \$72,035 at June 30, 2005.

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

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

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

<b>Fiscal Year Ending</b>	<b>General Obligation Bonds</b>			
	<b>Serial and Term</b>		<b>Capital Appreciation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2006	\$ 170,000	\$ 243,092		
2007		239,438	\$ 38,500	\$136,500
2008		239,437	36,665	138,335
2009		239,438	34,780	140,220
2010	180,000	235,388		
2011-2015	1,025,000	1,043,081		
2016-2020	1,290,000	768,090		
2021-2025	1,635,000	407,625		
2026-2027	780,000	39,500		
<b>Totals</b>	<b>\$5,080,000</b>	<b>\$3,455,089</b>	<b>\$109,945</b>	<b>\$415,055</b>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

**12. 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.

	<b>Textbooks</b>	<b>Capital Improvements</b>	<b>Budget Stabilization</b>
Cash Balance as of June 30, 2004	\$(280,546)	(\$1,889,211)	\$105,624
Current Year Requirements	111,536	111,536	
Current Year Offsets		(464,848)	
Qualifying Disbursements	(122,105)	(88,003)	
Set-Aside Balances Carried Forward to Future Years	<u>(\$291,115)</u>	<u>(\$2,330,526)</u>	<u>\$105,624</u>

The School District had prior year carryovers and current year qualifying expenditures during the fiscal year for the Textbook and Capital Improvement reserves that reduced set-aside amounts below zero. This amount may be used to reduce the set aside requirements of future fiscal years.

**13. INTERFUND TRANSFERS**

During fiscal year 2005, the General Fund made transfers to the EMIS special revenue fund, in the amounts of \$4,100, to subsidize the activity of this fund.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**14. JOINTLY GOVERNED ORGANIZATIONS**

**A. Western Ohio Computer Organization (WOCO)**

The Fort Loramie Local School District is a participant in the Western Ohio Computer Organization, which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. WOCO was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The superintendent of each member district is seated on the assembly which elects a Board of Directors for the consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of eleven members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Lewis Ivey, Jr., who serves as its administrator, 129 East Court Street, Sidney, Ohio 45365.

**B. Southwestern Ohio Educational Purchasing Council (SOEPC)**

The Southwestern Ohio Educational Purchasing Council (SOEPC) was established in 1986 to foster cooperation among educational entities located in southwestern Ohio. The SOEPC is organized under Ohio law as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. The SOEPC is governed by an elected Board consisting of 10 representatives of the educational entities and the Montgomery County Educational Service Center superintendent. The Board, except for the Superintendent of the Montgomery County Educational Service Center, is elected from an Assembly consisting of a representative from each participating educational entity.

Financial information can be obtained from the Ohio Educational Purchasing Council, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45337.

**C. Upper Valley Joint Vocational School**

The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from some of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Upper Valley Joint Vocational School, William Stump, Treasurer, at 8811 Career Drive, Piqua, Ohio 45356.

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

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

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

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

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

**E. Shelby County Local Professional Development Committee**

The School District is a participant in the Shelby County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is an association of public school districts within the boundaries of Shelby County. The committee is governed by a twelve member board made up of eight teachers, one building principal, one superintendent, one treasurer, and one administrator employed by the Shelby County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365

**15. INSURANCE PURCHASING POOLS**

**A. Shelby County Schools Consortium**

The Shelby County Schools Consortium (the Consortium) is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each district pays monthly premiums to the provider, currently Community Insurance Corporation, doing business as Anthem Blue Cross/Blue Shield and Anthem Life Insurance Company of Indiana. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the Shelby County Educational Service Center. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, The Pinnacle Advisory Group, 131 North Ludlow Street, Dayton, Ohio 45402.

**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 Association (OASBO) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**FORT LORAMIE LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**15. INSURANCE PURCHASING POOLS (Continued)**

**C. Ohio School Insurance Program**

The School District participates in the Ohio School Insurance Program (OSIP), an insurance purchasing pool. The Ohio School Insurance Program (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of School District superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

**16. 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**

During fiscal year 2005, the District currently had pending litigation filed by an employee against both the district and the Bureau of Workers Compensation. The litigant sought to participate in a Workers' Compensation claim which has been disallowed. On April 27, 2005, the Common Pleas Court of Shelby County issued a notice of Plaintiff's voluntary dismissal of the complaint without prejudice to refile. Should this matter be refiled, the District's financial liability will be limited to reinstatement of used sick leave time which could increase an eventual severance payment and an increase in Workers Compensation premiums.

The District is of the opinion that this and any other current or future claims will either result in a favorable outcome or be covered by current insurance policies, so as not to materially affect the overall financial position of the District.



# Mary Taylor, CPA

## Auditor of State

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

Fort Loramie Local School District  
Shelby County  
575 Greenback Road  
PO Box 26  
Fort Loramie, Ohio 45845

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Loramie Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2007, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 5, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 5, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

Fort Loramie Local School District  
Shelby County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Mary Taylor, CPA**  
Auditor of State

March 5, 2007



**Mary Taylor, CPA**  
Auditor of State

**FORT LORAMIE LOCAL SCHOOL DISTRICT**

**SHELBY 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  
APRIL 3, 2007**