



Mary Taylor, CPA
Auditor of State

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fredericktown Local School District
Knox County
117 Columbus Road
Fredericktown, Ohio 43019

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 Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

January 14, 2009

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Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- ❑ Net assets of governmental activities increased \$66,415, which represents only a .26 percent increase from 2007. This increase is the result of the School District actively pursuing grants and monitoring expenses while still maintaining the high academic standards the communities expect of the School District.
- ❑ General revenues accounted for \$8,365,950 in revenue or 76.92 percent of total revenues. Program specific revenues in the form of charges for services, sales, grants and contributions accounted for \$2,509,998, or 23.08 percent of total revenues of \$10,875,948.
- ❑ The School District had \$10,809,533 in expenses related to governmental activities; only \$2,509,998 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$8,365,950 were sufficient to cover the costs of these programs.
- ❑ Outstanding general obligation debt decreased from \$8,956,173 in fiscal year 2007 to \$8,664,372 in fiscal year 2008.
- ❑ Capital assets increased by \$12,790,854, mainly due to additions to construction in progress for the new school building being constructed.

Using this Annual Financial Report (AFR)

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

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. Changes to our net assets are a direct result of property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, all School District activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund, the building fund and the Ohio school facilities fund.

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

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

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007:

Table 1
Net Assets

	Governmental Activities		
	2008	2007	Change
Assets			
Current and Other Assets	\$11,780,269	\$25,249,610	(\$13,469,341)
Capital Assets	27,708,180	14,917,326	12,790,854
Total Assets	<u>39,488,449</u>	<u>40,166,936</u>	<u>(678,487)</u>
Liabilities			
Long-Term Liabilities	9,345,728	9,554,395	(208,667)
Other Liabilities	4,662,188	5,198,423	(536,235)
Total Liabilities	<u>14,007,916</u>	<u>14,752,818</u>	<u>(744,902)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,409,251	7,730,593	12,678,658
Restricted	3,120,910	15,394,367	(12,273,457)
Unrestricted	1,950,372	2,289,158	(338,786)
Total Net Assets	<u>\$25,480,533</u>	<u>\$25,414,118</u>	<u>\$66,415</u>

Total assets decreased \$678,487, or 1.7 percent, due to an decrease in current assets. Cash decreased as a result of spending down the Ohio School Facilities Commission (OSFC) grant revenue. Capital assets increased due to additional construction in progress as the School District continues the OSFC project.

Liabilities for governmental activities totaled \$14,007,916, a decrease of \$744,902 from 2007. The decrease is due to annual principal payments on debt and lower deferred revenue.

The net impact of assets and liabilities was an increase of net assets of the School District's governmental activities in the amount of \$66,415. Table 2 shows the changes in net assets for fiscal year 2008 compared to fiscal year 2007.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 2
Changes in Net Assets

	2008	2007	Change
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$987,587	\$1,043,355	(\$55,768)
Operating Grants and Contributions	1,378,603	1,107,055	271,548
Capital Grants	143,808	596,669	(452,861)
Total Program Revenues	<u>2,509,998</u>	<u>2,747,079</u>	<u>(237,081)</u>
<i>General Revenues:</i>			
Property Taxes	3,322,826	4,090,508	(767,682)
Grants and Entitlements	4,192,212	4,423,973	(231,761)
Interest	407,910	332,052	75,858
Other	443,002	88,000	355,002
Total General Revenues	<u>8,365,950</u>	<u>8,934,533</u>	<u>(568,583)</u>
Total Revenues	<u>10,875,948</u>	<u>11,681,612</u>	<u>(805,664)</u>
Expenses			
<i>Instruction</i>			
Regular	4,524,769	4,660,808	(136,039)
Special	1,160,009	978,217	181,792
Vocational	128,566	153,788	(25,222)
Adult/Continuing	600	1,200	(600)
<i>Support Services:</i>			
Pupil	404,925	358,552	46,373
Instructional Staff	850,444	778,877	71,567
Board of Education	33,755	49,750	(15,995)
Administration	809,428	825,562	(16,134)
Fiscal	252,818	343,789	(90,971)
Business	68,004	55,690	12,314
Operation and Maintenance of Plant	721,210	632,224	88,986
Pupil Transportation	535,993	500,271	35,722
Central	42,112	48,247	(6,135)
Food Service Operations	336,576	460,046	(123,470)
Extracurricular Activities	525,777	421,514	104,263
Interest and Fiscal Charges	414,547	326,973	87,574
Total Expenses	<u>10,809,533</u>	<u>10,595,508</u>	<u>214,025</u>
Increase in Net Assets	66,415	1,086,104	(1,019,689)
Net Assets Beginning of Year	<u>25,414,118</u>	<u>24,328,014</u>	<u>1,086,104</u>
Net Assets End of Year	<u><u>\$25,480,533</u></u>	<u><u>\$25,414,118</u></u>	<u><u>\$66,415</u></u>

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Total revenues of governmental activities were affected by the following:

- The majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$8,365,950 or 76.92 percent of total revenue.
- Property taxes revenues decreased due to fluctuations in the amount available for advances from the county auditors as well as the phase out of the tangible personal property tax.
- Grant and entitlement revenues decreased due to more grant monies received from the Ohio Schools Facilities Commission for construction of a new PK-12 building for the School District in 2007 than in 2008.
- Interest revenue increased due to the increase in the amount of cash the School District has invested.
- Capital grants decreased due to a donation of an athletic facility in fiscal year 2007, which did not occur in 2008.

Instruction comprises 53.79 percent of governmental program expenses. Support services for pupils and instructional staff comprise 11.61 percent. The remaining expenses are made up of pupil transportation, extracurricular activities, interest and fiscal charges and various administrative expenses of the School District. These expenses make up 34.60 percent of the governmental program expenses. Total expenses of governmental activities increased overall by \$214,025.

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction of collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the homes were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00 and the School District would collect the same dollar value the levy generated in the years past. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Several revenue sources fund our governmental activities with property taxes and State foundation being the largest contributors. Property tax levies generated \$3,322,826 in 2008. General revenues from grants and entitlements, such as the school foundation program and Ohio School Facilities Commission grants generated \$4,192,212. With the combination of taxes and intergovernmental funding over 76.29 percent of all expenses, the School District monitors both of these revenue sources very closely for fluctuations.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$5,813,944	\$5,794,013	\$4,443,929	\$4,144,111
Support Services:				
Pupil and Instructional Staff	1,255,369	1,137,429	979,477	1,081,207
Board of Education, Administration, Fiscal and Business	1,164,005	1,274,791	1,152,575	1,272,091
Operation and Maintenance of Plant	721,210	632,224	721,210	623,114
Pupil Transportation	535,993	500,271	237,458	500,271
Central	42,112	48,247	42,112	39,247
Food Service Operations	336,576	460,046	4,356	107,234
Extracurricular Activities	525,777	421,514	303,871	(245,819)
Interest and Fiscal Charges	414,547	326,973	414,547	326,973
Total Expenses	\$10,809,533	\$10,595,508	\$8,299,535	\$7,848,429

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,157,823 and expenditures of \$24,212,651. The net change in fund balance for the year was a decrease of \$3,054,828. The general fund had revenues of \$8,205,674 and expenditures of \$8,819,025. This deficit of \$613,351 is due to a decrease in property tax and tuition revenues from the prior year. The Ohio school facilities fund had revenues of \$10,462,055 and expenditures of \$12,887,868 leaving a deficit of \$2,425,813 due to an increase in capital outlay expenditures for construction of a new school building. The building fund had revenue of \$57,747 and expenditures of \$361,907 leaving a deficit of \$304,160.

General Fund Budgeting Highlights

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

During the course of fiscal 2008, the School District amended its general fund budget numerous times to allow for insignificant changes to the budget.

For the general fund, the final budget estimate was \$8,551,001, below original budget estimates of \$8,949,900. Of this \$398,899 difference, most was due to aggressive estimates for taxes and intergovernmental revenues.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The original appropriations estimate of \$9,757,045 was very consistent with the final appropriations of \$9,757,044. Expenditures, however, were only \$8,817,151 or \$939,893 less than anticipated. This \$939,893 difference is due to the fact that the School District did not spend what it anticipated in almost every expenditure category.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$27,708,180 invested in capital assets. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007:

Table 4
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2008	2007
Land	\$418,825	\$418,825
Construction in Progress	17,982,775	4,888,713
Land Improvements	224,471	235,679
Buildings and Improvements	8,350,315	8,539,015
Furniture and Equipment	546,985	594,182
Vehicles	184,809	240,912
Totals	\$27,708,180	\$14,917,326

For fiscal year 2008, construction in progress increased by \$13,094,062 over fiscal year 2007. This was due to the construction of a new school building to house all students of the School District. This building was funded by the Ohio School Facilities Commission and a local bond issue. The building opened for the start of the fiscal 2009 school year. For more information on capital assets refer to Note 11 to the Basic Financial Statements.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Debt

At June 30, 2008 the School District had \$8,664,372 in long-term obligations outstanding with \$260,000 due within one year. Table 5 summarizes the bonds outstanding:

Table 5
 Outstanding Debt, at Year End

	Governmental Activities 2008	Governmental Activities 2007
General Obligation Bonds:		
2001 School Improvement Bonds	\$2,796,314	\$2,987,797
2007 Refunding Bonds	4,388,058	4,416,376
Capital Lease	1,480,000	1,527,000
Energy Conservation Bonds	0	25,000
Total	\$8,664,372	\$8,956,173

The electors of the School District approved the issuance of bonds in the amount of \$7.9 million at the election held on November 7, 2000, and bonds were issued pursuant to such voted authority. The bonds were issued for the construction of a discrete portion of a K-8 facility to serve grades K-3; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the site. The School District has been approved to participate in the Expedited Local Partnership Program of the Ohio School Facilities Commission, under which the State will fund 71 percent of the School District's future facility needs after the issuance of the bonds.

During fiscal year 2007, the School District issued \$4,295,000 in general obligation bonds to refund a portion of the 2000 school improvement bonds in order to take advantage of lower interest rates.

At June 30, 2008, the School District's overall legal debt margin was \$4,295,070 with an unvoted debt margin of \$118,745. For more information, refer to Note 15 to the Basic Financial Statements.

Current Issues Affecting Financial Condition

The School District has established a medical benefits committee of staff, administration and board members. During 2004/05 negotiations, the School District increased deductibles, out-of-pocket expenses for employees, increased prescription drug co-pay and implemented higher deductibles and higher out-of-pocket expenses for employees for non-PPO expenses. The School District took a premium holiday in May 2008.

The end of fiscal year 2007 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on June 28, 2007 with a two year salary set at 3 percent and 3.5 percent increase with re-opener on salary for the last year of the contract. The end of fiscal year 2007 also marked the expiration of the classified employees' three year contract. A three-year labor agreement was approved June 28, 2007. Their economic package contained in the contract provides for a 3 percent increase for the first year, a 3.5 percent increase in the second year with a re-opener on salary for the third year. There were only minor changes to the insurance plan.

Fredericktown Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

On August 14, 2000, the State Controlling Board approved the School District's participation in the Expedited Local Partnership Program (the "Expedited Program") under which the State will fund 71 percent of the School District's future facility needs after its issuance of the bonds.

Under the Expedited Program, a school district may enter into an agreement with the Ohio School Facilities Commission under which the school district proceeds with the new construction or major repairs of a separate and discrete portion of the school district's classroom facilities needs through the expenditure of "local resources." "Local resources" are defined as "any monies generated in any manner" allocated for a school district portion of a school facilities project. In order to be eligible for the Expedited Program, a school district must submit a resolution passed by the school board certifying to the Commission the school district's request to participate in the Expedited Program.

Once the school district is approved for the Expedited Program, the Commission conducts an assessment and develops a current master plan for the school district. As with the Facilities Program, the Commission establishes a basic project cost, and subsequently, the State and local share percentage are determined pursuant to Chapter 3318, Ohio Revised Code. Once the master plan is complete, the school district may proceed with and pay for the discrete portion of the master plan with local resources, and may choose to fund the maintenance obligation that will be ultimately required when the school district qualifies for the Facilities Program. The master plan expenditures, if qualifying, will then count toward the local share of the Facilities Program when the school district becomes eligible for the Facilities Program. When the school district is eligible for the Facilities Program, the Commission will conduct a new assessment of the school district's facilities and may determine that additional facility improvements are required. In some cases, this would require the school district to provide additional local resources to meet its local share percentage, possibly including seeking voter approval for an additional bond issue.

Fredericktown was one of the pilot schools in OSFC's Expedited Local Partnership program. We passed a 5.33 mill Bond Issue in November 2000 and built the K-3 portion of an eventual K-8 building. The building opened to students in August 2003. In the fall of 2003 the School District applied for funding through OSFC's Exceptional Needs Program to complete the second phase of the building project and to replace the current Intermediate building that dates back to 1894.

Although the School District was not funded for fiscal years 2004 or 2005, through a concerted effort, the School District was approved for exceptional needs and the School Board accepted the financial plan August 18, 2005. Because the original Master Plan called for renovation of the High School at an estimated cost of \$4 million and today the estimated cost is \$8 Million, OSFC recommended that we build a new High School Building. The project now reflects a PK-12 building. The site work was started in the summer of 2007 and the School District moved into the completed facility in August 2008.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Management must plan expenses accordingly, staying within the School District's five-year plan.

In conclusion, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Fredericktown Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Pat Miller, Treasurer at Fredericktown Local School District, 117 Columbus Road, Fredericktown, Ohio 43019 or e-mail at pat_m@treca.org.

Fredericktown Local School District

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,101,617
Cash and Cash Equivalents	
With Fiscal Agents	1,210,012
Accrued Interest Receivable	11,642
Accounts Receivable	20,053
Intergovernmental Receivable	604,783
Taxes Receivable	3,673,132
Inventory Held for Resale	7,063
Materials and Supplies Inventory	980
Deferred Charges	150,987
Nondepreciable Capital Assets	18,401,600
Depreciable Capital Assets, Net	<u>9,306,580</u>
<i>Total Assets</i>	<u>39,488,449</u>
Liabilities	
Accounts Payable	43,887
Contracts Payable	537,582
Accrued Wages Payable	736,935
Intergovernmental Payable	241,237
Matured Compensated Absences Payable	39,328
Deferred Revenue	2,626,888
Matured Bonds Payable	48,000
Matured Interest Payable	13,020
Accrued Interest Payable	33,487
Claims Payable	341,824
Long-Term Liabilities:	
Due Within One Year	299,237
Due In More Than One Year	<u>9,046,491</u>
<i>Total Liabilities</i>	<u>14,007,916</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	20,409,251
Restricted for:	
Capital Projects	2,347,787
Debt Service	509,033
Other Purposes	264,090
Unrestricted	<u>1,950,372</u>
<i>Total Net Assets</i>	<u>\$25,480,533</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets	
			Capital Grants	Governmental Activities	
Governmental Activities					
Instruction:					
Regular	\$4,524,769	\$558,080	\$103,249	\$143,808	(\$3,719,632)
Special	1,160,009	0	560,878	0	(599,131)
Vocational	128,566	0	4,000	0	(124,566)
Adult/Continuing	600	0	0	0	(600)
Support Services:					
Pupil	404,925	0	5,000	0	(399,925)
Instructional Staff	850,444	0	270,892	0	(579,552)
Board of Education	33,755	0	0	0	(33,755)
Administration	809,428	0	11,430	0	(797,998)
Fiscal	252,818	0	0	0	(252,818)
Business	68,004	0	0	0	(68,004)
Operation and Maintenance					
of Plant	721,210	0	0	0	(721,210)
Pupil Transportation	535,993	0	298,535	0	(237,458)
Central	42,112	0	0	0	(42,112)
Food Service Operations	336,576	207,601	124,619	0	(4,356)
Extracurricular Activities	525,777	221,906	0	0	(303,871)
Interest and Fiscal Charges	414,547	0	0	0	(414,547)
Totals	\$10,809,533	\$987,587	\$1,378,603	\$143,808	(8,299,535)
General Revenues					
Property Taxes Levied for:					
					2,612,199
					470,267
					192,235
					48,125
					4,192,212
					407,910
					443,002
					<u>8,365,950</u>
					66,415
					<u>25,414,118</u>
					<u>\$25,480,533</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

Balance Sheet

Governmental Funds

June 30, 2008

	General	Building Fund	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,997,076	\$1,413,916	\$1,437,754	\$1,252,871	\$6,101,617
Cash and Cash Equivalents					
With Fiscal Agents	0	0	0	62,945	62,945
Accrued Interest Receivable	11,642	0	0	0	11,642
Accounts Receivable	3,497	0	0	16,556	20,053
Interfund Receivable	130	0	0	0	130
Intergovernmental Receivable	2,393	0	591,167	11,223	604,783
Inventory held for Resale	0	0	0	7,063	7,063
Materials and Supplies Inventory	0	0	0	980	980
Taxes Receivable	2,959,186	0	0	713,946	3,673,132
<i>Total Assets</i>	<u>\$4,973,924</u>	<u>\$1,413,916</u>	<u>\$2,028,921</u>	<u>\$2,065,584</u>	<u>\$10,482,345</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$33,062	\$0	\$7,630	\$3,195	\$43,887
Accrued Wages Payable	697,647	0	0	39,288	736,935
Contracts Payable	0	177,055	360,527	0	537,582
Interfund Payable	0	0	0	130	130
Intergovernmental Payable	217,430	0	0	23,807	241,237
Matured Compensated Absences Payable	32,669	0	0	6,659	39,328
Matured Bonds Payable	0	0	0	48,000	48,000
Matured Interest Payable	0	0	0	13,020	13,020
Deferred Revenue	2,184,984	0	591,167	531,565	3,307,716
<i>Total Liabilities</i>	<u>3,165,792</u>	<u>177,055</u>	<u>959,324</u>	<u>665,664</u>	<u>4,967,835</u>
Fund Balances					
Reserved for Encumbrances	99,663	931,783	563,555	129,601	1,724,602
Reserved for Property Taxes	774,202	0	0	193,306	967,508
Unreserved, Undesignated Reported In:					
General Fund	934,267	0	0	0	934,267
Special Revenue Funds	0	0	0	162,857	162,857
Debt Service Funds	0	0	0	470,780	470,780
Capital Projects Funds	0	305,078	506,042	443,376	1,254,496
<i>Total Fund Balances</i>	<u>1,808,132</u>	<u>1,236,861</u>	<u>1,069,597</u>	<u>1,399,920</u>	<u>5,514,510</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,973,924</u>	<u>\$1,413,916</u>	<u>\$2,028,921</u>	<u>\$2,065,584</u>	<u>\$10,482,345</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2008

Total Governmental Funds Balances	\$5,514,510
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,708,180
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	78,736
Intergovernmental	<u>602,092</u>
Total	680,828
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	805,243
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(33,487)
In the statement of activities, bond issuance costs are amortized over the time the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	150,987
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
School Improvement Bonds	(2,725,000)
Refunding School Bonds	(4,095,279)
General Obligation Bond Premium	(364,093)
Capital Leases	(1,480,000)
Compensated Absences	<u>(681,356)</u>
Total	<u>(9,345,728)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$25,480,533</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Building Fund	Ohio School Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$2,631,376	\$0	\$0	\$707,474	\$3,338,850
Intergovernmental	4,669,019	0	10,306,758	1,038,189	16,013,966
Interest	159,688	57,747	155,297	1,326	374,058
Tuition and Fees	504,571	0	0	51,524	556,095
Extracurricular Activities	19,873	0	0	201,773	221,646
Rentals	2,245	0	0	0	2,245
Charges for Services	0	0	0	207,601	207,601
Contributions and Donations	0	0	0	360	360
Miscellaneous	218,902	0	0	224,100	443,002
<i>Total Revenues</i>	<u>8,205,674</u>	<u>57,747</u>	<u>10,462,055</u>	<u>2,432,347</u>	<u>21,157,823</u>
Expenditures					
Current:					
Instruction:					
Regular	4,327,660	0	0	200,966	4,528,626
Special	870,623	0	0	231,888	1,102,511
Vocational	129,659	0	0	4,281	133,940
Adult/Continuing	0	0	0	600	600
Support Services:					
Pupil	379,921	0	0	18,529	398,450
Instructional Staff	520,345	0	0	338,836	859,181
Board of Education	33,755	0	0	0	33,755
Administration	816,179	0	0	2,430	818,609
Fiscal	232,770	0	0	17,343	250,113
Business	68,004	0	0	0	68,004
Operation and Maintenance of Plant	624,038	0	0	79,906	703,944
Pupil Transportation	514,276	0	0	0	514,276
Central	0	0	0	42,112	42,112
Food Service Operations	36	0	0	343,562	343,598
Extracurricular Activities	276,090	0	0	171,516	447,606
Capital Outlay	0	361,907	12,887,868	20,325	13,270,100
Debt Service:					
Principal Retirement	25,000	0	0	262,000	287,000
Interest and Fiscal Charges	669	0	0	409,557	410,226
<i>Total Expenditures</i>	<u>8,819,025</u>	<u>361,907</u>	<u>12,887,868</u>	<u>2,143,851</u>	<u>24,212,651</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(613,351)</u>	<u>(304,160)</u>	<u>(2,425,813)</u>	<u>288,496</u>	<u>(3,054,828)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	33,600	33,600
Transfers Out	(33,600)	0	0	0	(33,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(33,600)</u>	<u>0</u>	<u>0</u>	<u>33,600</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(646,951)</u>	<u>(304,160)</u>	<u>(2,425,813)</u>	<u>322,096</u>	<u>(3,054,828)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,455,083</u>	<u>1,541,021</u>	<u>3,495,410</u>	<u>1,077,824</u>	<u>8,569,338</u>
<i>Fund Balances End of Year</i>	<u>\$1,808,132</u>	<u>\$1,236,861</u>	<u>\$1,069,597</u>	<u>\$1,399,920</u>	<u>\$5,514,510</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds (\$3,054,828)

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

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

Capital Outlays	13,218,639	
Current Year Depreciation	<u>(427,607)</u>	
Total		12,791,032

Governmental funds only report the disposal of capital assets to the extent proceeds are received
from the sale. In the statement of activities, a gain or loss is reported for each disposal. (178)

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

Delinquent Property Taxes	(16,024)	
Intergovernmental	<u>(10,299,703)</u>	
Total		(10,315,727)

Repayment of school improvement bonds, and energy bonds are an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net assets. 287,000

Some expenses reported in the statement of activities, such as compensated absences of current
financial resources and therefore are not reported as expenditures in governmental funds. (83,134)

Some expenses reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Bonds	1,145	
Amortization of Premium	20,765	
Amortization of Issuance Costs	(10,267)	
Accretion	(7,136)	
Amortization of Loss on Refunding	<u>(8,828)</u>	
Total		(4,321)

The internal service fund used by management to charge the cost of health insurance to individual funds is
not reported in the entity-wide statement of activities. Governmental expenditures and related internal
service fund revenues are eliminated. The change for the governmental funds is reported for the year. 446,571

Change in Net Assets of Governmental Activities \$66,415

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$3,397,500	\$3,002,971	\$3,001,318	(\$1,653)
Intergovernmental	4,787,500	4,631,600	4,667,875	36,275
Interest	150,000	150,000	150,032	32
Tuition and Fees	511,500	508,500	504,571	(3,929)
Extracurricular Activities	21,000	21,000	19,873	(1,127)
Rentals	2,100	2,100	2,245	145
Contributions and Donations	300	300	0	(300)
Miscellaneous	80,000	234,530	223,758	(10,772)
<i>Total Revenues</i>	8,949,900	8,551,001	8,569,672	18,671
Expenditures				
Current:				
Instruction:				
Regular	4,772,570	4,556,528	4,294,558	261,970
Special	977,575	1,146,096	852,370	293,726
Vocational	135,010	141,730	138,078	3,652
Support Services:				
Pupil	397,798	418,098	381,230	36,868
Instructional Staff	590,211	595,311	514,965	80,346
Board of Education	63,934	63,934	38,348	25,586
Administration	885,842	899,842	814,537	85,305
Fiscal	252,353	253,853	232,938	20,915
Business	91,461	91,461	69,205	22,256
Operation and Maintenance of Plant	720,546	719,446	664,640	54,806
Pupil Transportation	580,830	579,930	516,492	63,438
Extracurricular Activities	263,245	265,145	274,121	(8,976)
Debt Service:				
Principal Retirement	25,000	25,000	25,000	0
Interest and Fiscal Charges	670	670	669	1
<i>Total Expenditures</i>	9,757,045	9,757,044	8,817,151	939,893
<i>Excess of Revenues Under Expenditures</i>	(807,145)	(1,206,043)	(247,479)	958,564
Other Financing Sources (Uses)				
Advances In	20,000	20,000	0	(20,000)
Advances Out	(50,000)	(50,000)	0	50,000
Transfers Out	(90,000)	(90,000)	(33,600)	56,400
<i>Total Other Financing Sources (Uses)</i>	(120,000)	(120,000)	(33,600)	86,400
<i>Net Change in Fund Balance</i>	(927,145)	(1,326,043)	(281,079)	1,044,964
<i>Fund Balance Beginning of Year</i>	2,071,268	2,071,268	2,071,268	0
Prior Year Encumbrances Appropriated	89,671	89,671	89,671	0
<i>Fund Balance End of Year</i>	\$1,233,794	\$834,896	\$1,879,860	\$1,044,964

See accompanying notes to the basic financial statements

Fredericktown Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2008

	<u>Insurance</u>
Assets	
<i>Current Assets</i>	
Cash and Cash Equivalents With Fiscal Agents	\$1,147,067
Liabilities	
<i>Current Liabilities</i>	
Claims Payable	<u>341,824</u>
Net Assets	
Unrestricted	<u><u>\$805,243</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2008*

	Insurance
Operating Revenues	
Charges for Services	\$1,723,838
Operating Expenses	
Purchased Services	265,681
Claims	1,045,438
<i>Total Operating Expenses</i>	1,311,119
<i>Operating Income</i>	412,719
Non-Operating Revenues	
Interest	33,852
Change in Net Assets	446,571
<i>Net Assets Beginning of Year</i>	358,672
<i>Net Assets End of Year</i>	\$805,243

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

	Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund	
Services Provided	\$1,723,838
Cash Payments for Goods and Services	(265,681)
Cash Payments for Claims	(1,091,650)
<i>Net Cash Provided by Operating Activities</i>	366,507
Cash Flows from Investing Activities	
Interest on Investments	33,852
<i>Net Increase in Cash and Cash Equivalents</i>	400,359
<i>Cash and Cash Equivalents Beginning of Year</i>	746,708
<i>Cash and Cash Equivalents End of Year</i>	\$1,147,067
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$412,719
Adjustments:	
Decrease in Claims Payable	(46,212)
<i>Net Cash Provided by Operating Activities</i>	\$366,507
See accompanying notes to the basic financial statements	

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$24,292
Liabilities	
Undistributed Monies	\$3,364
Due to Students	<u>20,928</u>
Total Liabilities	<u>\$24,292</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 1 - Description of the School District

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 47 classified employees and 87 certificated employees who provide services to 1,142 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District 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 Fredericktown Local School District, this includes the agencies and departments that provide the following services: 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. The School District has no component units.

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, both insurance purchasing pools. These organizations are presented in Note 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. The fiduciary fund is reported by type.

B. Fund Accounting

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

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

General Fund The general fund is the operating fund of the School District and 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 and purpose provided it is expended or transferred according to general laws of Ohio.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Building Fund The building capital projects fund accounts for debt proceeds and other revenue to be used for the acquisition, construction, or improvement of capital facilities.

Ohio School Facilities Capital Projects Fund The Ohio school facilities capital projects fund accounts for the proceeds of notes and bonds as well grants for the building and equipping of the classroom facilities.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self insurance that accounts for medical, surgical and dental claims for School Districts employees.

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

C. Measurement Focus

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2008, investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$159,688 which includes \$26,178 assigned from other School District funds.

Investments of the cash management pool and investments with a 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 original maturity of more than three months that are not made from the pool are reported as investments.

The School District participates in the OME-RESA insurance consortium for self-insurance. These monies are reflected on statement of net assets as "cash and cash equivalents with fiscal agents." The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium. The School District also uses a fiscal agent to account for debt service payments. The balances in these accounts are also presented as "cash and cash equivalents with fiscal agents."

F. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories consist of donated food, purchased food and school supplies held for resale and materials and supplies held for consumption.

G. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the straight-line method since the results are not significantly different from the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

H. Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the straight-line method since the results are not significantly different from the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund financial statements, bond premiums are reported as another financing source in the fiscal year received.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

I. Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the straight line method since the results are not significantly different from the effective interest method.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 - 50 years
Buildings and Improvements	8 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	7 - 10 years

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Compensated Absences

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 10 years of current service with the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$3,120,910 of restricted net assets, none of which are restricted by enabling legislation. Net assets for other purposes include providing early childhood education programs, reducing class-size and student activities.

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

O. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

Q. Interfund Activity

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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.

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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

Note 3 – Change in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this statement for both the STRS and the SERS post-employment healthcare plan in the amount of \$6,335 and \$34,146, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 – Compliance and Accountability

A. Compliance

The School District had a negative cash balance of \$130 in the Ohio Reads Program fund, indicating that revenue from other sources were used to pay the obligations of this fund, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the School District will make cash advances during the year.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

B. Accountability

Fund balances at June 30, 2008, included the following individual fund deficits:

<i>Special Revenue Funds</i>	
EMIS Fund	\$17
CTAE - Vo Ag	12
Poverty Based Assistance	8
Title VI-B	29,104
Title I	116
Miscellaneous Federal Grants	6,967

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$646,951)
Net Adjustment for Revenue Accruals	363,998
Net Adjustment for Expenditure Accruals	119,220
Adjustment for Encumbrances	<u>(117,346)</u>
Budget Basis	<u><u>(\$281,079)</u></u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 6 - 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 that the Board 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 can 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
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);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

At June 30, 2008, the School District's self-insurance internal service fund had a balance of \$1,147,067 with OME-RESA, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 40. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

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, \$3,095,431 of the School District's bank balance of \$3,195,431 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the collateral securities were held by the pledging financial institutions' trust department and all 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 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 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.

Investments As of June 30, 2008, the School District only had an investment of \$3,002,690 in STAROhio, the State Treasurer's Investment Pool. This investment has an average maturity of 53.8 days.

Interest Rate Risk The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District and that investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements shall not exceed thirty days.

Credit Risk STAROhio carries a credit rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Morrow 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 County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2008 was \$774,202 in the general fund, \$127,226 in the bond retirement debt service fund, \$13,228 in the classroom facilities fund, and \$52,852 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2007, was \$1,144,144 in the general fund, \$106,122 in the bond retirement debt service fund, \$13,578 in the classroom facilities fund, and \$54,445 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$111,539,090	83.68%	\$116,033,140	90.19%
Public Utility Personal	4,421,970	3.32	3,409,570	2.65
General Business Personal	17,328,055	13.00	9,207,098	7.16
Total	\$133,289,115	100.00%	\$128,649,808	100.00%

Full Tax Rate per \$1,000 of
assessed valuation

\$48.46

\$48.69

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 8 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2008.

B. Litigation

The School District is not a party to any legal proceedings.

Note 9 - Receivables

Receivables at June 30, 2008, consisted of taxes, accounts (rent and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Ohio School Facilities Grant	\$591,167
Title II-A	10,925
Miscellaneous	2,393
Latchkey	168
Ohio Reads Grant	<u>130</u>
Total	<u><u>\$604,783</u></u>

In August of 2005, the School District signed an agreement with the Ohio School Facilities Commission to build one school and demolish one school. Under this agreement the State share is \$18,245,977 and the local share is \$7,900,000. At June 30, 2008, construction of the new school was in the final stages.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the School District contracted with Selective Insurance for buildings and contents, liability and fleet insurance.

Type of Coverage	Coverage Amount
Property (Replacement Cost)	\$31,626,161
General Liability, in aggregate	6,000,000
Auto Liability	3,000,000
Sexual Abuse and Molestation	3,000,000
Educator's Legal Liability	3,000,000
Crime	1,000,000
Umbrella Coverage	5,000,000
Builders' Risk	19,000,000

Settled claims have not exceeded this commercial coverage in any of the past four years and there have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2008, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP 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 GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Self-Insurance

The School District offers medical and surgical claims coverage to all employees, and dental claims coverage to all certified employees, through a self-insurance internal service fund. Self-Fund Plans, Incorporated serves as the third party administrator. The claims liability of \$341,824 reported in the internal service fund at June 30, 2008 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2007 and 2008 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2007	\$297,761	\$1,515,272	\$1,424,997	\$388,036
2008	388,036	1,045,438	1,091,650	\$341,824

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 11- Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>6/30/2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/2008</u>
Governmental Activities				
<i>Non-Depreciable Assets</i>				
Land	\$418,825	\$0	\$0	\$418,825
Construction in Progress	4,888,713	13,094,062	0	17,982,775
<i>Total Non-Depreciable Assets</i>	<u>5,307,538</u>	<u>13,094,062</u>	<u>0</u>	<u>18,401,600</u>
<i>Depreciable Assets</i>				
Land Improvements	394,802	14,835	0	409,637
Building and Improvements	10,736,296	23,042	0	10,759,338
Furniture and Equipment	1,838,497	86,700	(44,545)	1,880,652
Vehicles	848,974	0	0	848,974
<i>Total Depreciable Assets</i>	<u>13,818,569</u>	<u>124,577</u>	<u>(44,545)</u>	<u>13,898,601</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(159,123)	(26,043)	0	(185,166)
Building and Improvements	(2,197,281)	(211,742)	0	(2,409,023)
Furniture and Equipment	(1,244,315)	(133,719)	44,367	(1,333,667)
Vehicles	(608,062)	(56,103)	0	(664,165)
<i>Total Accumulated Depreciation</i>	<u>(4,208,781)</u>	<u>(427,607) *</u>	<u>44,367</u>	<u>(4,592,021)</u>
<i>Depreciable Capital Assets, Net</i>	<u>9,609,788</u>	<u>(303,030)</u>	<u>(178)</u>	<u>9,306,580</u>
Governmental Activities Capital Assets, Net	<u>\$14,917,326</u>	<u>\$12,791,032</u>	<u>(\$178)</u>	<u>\$27,708,180</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$205,432
Special	14,094
Vocational	3,846
Support Services:	
Pupil	7,735
Instructional Staff	11,222
Administration	19,174
Fiscal	2,921
Operation and Maintenance of Plant	25,821
Pupil Transportation	56,289
Food Service Operations	16,489
Extracurricular Activities	64,584
Total Depreciation Expense	<u>\$427,607</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 12 – Defined Benefits Pension Plans

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$110,390, \$113,013 and \$106,139 respectively; 43.31 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$564,642, \$532,030, and \$525,497 respectively; 83.29 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$1,227 made by the School District and \$14,356 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 13 – Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$24,103.

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$50,374, \$55,287, and \$52,353 respectively; 43.31 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,509 \$3,759, and \$4,167 respectively; 43.31 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.stsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$43,434, \$40,925, and \$40,423 respectively; 83.29 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 14 - 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. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 236 days for certificated and 220 days for remaining personnel. Upon retirement, payment is made for 25 percent of accrued, but unused sick leave credit to a maximum of 59 days for certified employees, and 27 percent of accrued, but unused sick leave credit to a maximum of 59 days for classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to contracted employees through Self -Funded Plans, Incorporated. The Board pays the cost of the monthly premium, \$2.90 per employee.

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/2007	Additions	Reductions	Principal Outstanding 6/30/2008	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
2001 School Improvement Bonds					
Current Issue Serial Bonds	\$2,910,000	\$0	(\$185,000)	\$2,725,000	\$190,000
Unamortized Premium	77,797	0	(6,483)	71,314	0
Total School Improvement Bonds	2,987,797	0	(191,483)	2,796,314	190,000
2007 Refunding School Bonds					
Current Issue Serial Bonds	2,760,000	0	(30,000)	2,730,000	20,000
Capital Appreciation Bonds	30,000	0	0	30,000	0
Accretion on Capital Appreciation Bonds	3,389	7,136	0	10,525	0
Term Bonds	1,505,000	0	0	1,505,000	0
Unamortized Premium	307,061	0	(14,282)	292,779	0
Unamortized Loss	(189,074)	0	8,828	(180,246)	0
Total Refunding School Bonds	4,416,376	7,136	(35,454)	4,388,058	20,000
Total General Obligation Bonds	7,404,173	7,136	(226,937)	7,184,372	210,000
Other Long-Term Obligations					
1997 Energy Conservation Bonds	25,000	0	(25,000)	0	0
Capital Leases	1,527,000	0	(47,000)	1,480,000	50,000
Compensated Absences	598,222	99,421	(16,287)	681,356	39,237
Total Governmental Activities Long-Term Liabilities	\$9,554,395	\$106,557	(\$315,224)	\$9,345,728	\$299,237

On April 19, 2001, the School District issued \$7,900,000 in voted general obligation bonds for the purpose of high school and elementary school additions. The bonds were issued at a 3.80 to 5.90 percent interest rate for a twenty-nine year period with final maturity at June 1, 2029. These bonds were issued at a premium of \$104,878. The bonds will be retired from the debt service fund.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

On April 26, 2007, the School District issued \$4,295,000 in voted general obligation bonds which included serial, capital appreciation and term bonds in the amount of \$2,760,000, \$30,000 and \$1,505,000, respectively. The general obligation bonds were issued at 3.75 to 5.25 percent interest rate for the purpose of refunding a portion of the 2001 school improvement bonds to take advantage of lower interest rates. The bonds were issued for a twenty-two year period with final maturity at December 1, 2028. The bonds will be retired from the debt service fund.

The capital appreciation bonds were originally sold at a discount of \$335,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is fiscal year 2021.

The maturity amount of outstanding capital appreciation bonds is \$365,000. The accretion recorded for 2008 was \$7,136, for a total outstanding bond liability of \$40,525 at June 30, 2008.

The term bonds maturing on December 1, 2028 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2026	\$480,000
2027	500,000
Total	<u>\$980,000</u>

The remaining principal amount of \$525,000 will be paid at the stated maturity on December 1, 2028.

All general obligation bonds will be paid from property taxes. Compensated absences will be paid from the general fund and the food service and title VI-B special revenue funds. The capital lease will be paid from the building capital projects fund.

The School District's overall debt margin was \$4,295,070 with an unvoted debt margin of \$118,745 at June 30, 2008. Principal and interest requirements to retire general obligation bonds and energy conservation bonds outstanding at June 30, 2008 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$210,000	\$267,704	\$0	\$0	\$0	\$63,962
2010	220,000	258,469	0	0	0	63,962
2011	225,000	248,604	0	0	0	63,962
2012	245,000	237,964	0	0	0	63,962
2013	250,000	225,254	0	0	0	63,962
2014-2018	1,470,000	889,706	0	0	0	319,810
2019-2023	1,500,000	493,969	30,000	335,000	0	319,810
2024-2028	1,335,000	116,236	0	0	980,000	246,605
2029	0	0	0	0	525,000	11,156
Totals	<u>\$5,455,000</u>	<u>\$2,737,906</u>	<u>\$30,000</u>	<u>\$335,000</u>	<u>\$1,505,000</u>	<u>\$1,217,191</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

In 2007, the School District defeased a 2001 school improvement bond issue, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included on the School District's financial statements. On June 30, 2008, \$4,295,000 of the defeased bonds are still outstanding.

Note 16 - Capital Leases

A capital lease obligation recorded on the governmental wide statements relates to the construction of various school buildings. As part of this agreement, the Ohio Association of School Business Officials, as lessor, deposited \$1,527,000 into the School District's account. The proceeds were used for the School District's portion of the Ohio School Facilities Commission school renovation project. The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008.

<u>Year Ending June 30,</u>	
2009	\$114,602
2010	114,338
2011	113,984
2012	114,520
2012 - 2017	575,976
2018 - 2022	578,725
2023 - 2027	<u>582,029</u>
Total minimum lease payments	2,194,174
Less: Amount representing interest	<u>(714,174)</u>
Present Value of Minimum Lease Payments	<u><u>\$1,480,000</u></u>

Note 17 - Jointly Governed Organization and Public Entity Risk Pools

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$30,328 to TRECA during fiscal year 2008 for services. Financial information can be obtained from Mike Carder, who serves as Director, 100 Executive Drive, Marion, Ohio 43302.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

B. Insurance Purchasing Pool

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

C. The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan

The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self Insurance Plan, A risk-sharing, claims servicing, and insurance purchasing pool comprised of seventy-five members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plans' business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from \$35,000 to \$100,000 under which the individual member is responsible for all claims through the claims servicing pool. The School District's deductible limit is \$35,000. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$400,000, and all claims between the deductible and the \$400,000 are paid from the internal shared risk pool. The internal pool is not owned by the participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$400,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administration fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Self-Funded Plans, Incorporated.

Note 18 - 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 year end or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balances as of June 30, 2008	(\$129,826)	(\$602,153)
Current Year Set-aside Requirement	170,490	170,490
Current Year Offsets	0	442,146
Qualifying Disbursements	<u>102,225</u>	<u>0</u>
Total	<u>(\$61,561)</u>	<u>(\$873,809)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$61,561)</u>	<u>(\$873,809)</u>
Set-aside Reserve Balance as of June 30, 2008	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements or offsets during the fiscal year that reduced the textbook and capital improvement set-asides amount below zero. These amounts may be used to reduce the set-aside requirement of future years.

Note 19 – Interfund Transfers

A transfer of \$33,600 was made from the general fund into the food service fund to provide for the payment of expenditures and maintain the food service operations for the students.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>Passed Through Ohio Department of Education:</i>					
Food Distribution Program	10.550	\$ -	\$ 25,638	\$ -	\$ 25,638
Child Nutrition Cluster Breakfast Program	10.553	18,801	-	18,801	-
National School Lunch Program	10.555	103,457	-	103,457	-
Special Milk Program	10.556	2,155	-	2,155	-
Total Child Nutrition Cluster		<u>124,413</u>	<u>25,638</u>	<u>124,413</u>	<u>25,638</u>
Total U.S. Department of Agriculture		<u>124,413</u>	<u>25,638</u>	<u>124,413</u>	<u>25,638</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>Direct Program:</i>					
P.E.P. Wellness Program	84.215	241,897	-	241,596	-
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	84.010	88,890	-	88,890	-
Special Education Grants to States	84.027	294,363	-	294,697	-
Safe and Drug-Free Schools and Communities State Grants	84.186	3,409	-	3,409	-
State Grants for Innovative Programs	84.298	2,738	-	2,738	-
Education Technology State Grant	84.318	900	-	900	-
Improving Teacher Quality	84.367	40,672	-	40,204	-
Total Passed Through Ohio Department of Education		<u>430,972</u>	<u>-</u>	<u>430,838</u>	<u>-</u>
Total U.S. Department of Education		<u>672,869</u>	<u>-</u>	<u>672,434</u>	<u>-</u>
Totals		<u>\$ 797,282</u>	<u>\$ 25,638</u>	<u>\$ 796,847</u>	<u>\$ 25,638</u>

The accompanying notes to this schedule are an integral part of this schedule.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



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*

Fredericktown Local School District
Knox County
117 Columbus Road
Fredericktown, Ohio 43019

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 Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2009. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: finding number 2008-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding number 2008-001 is also a material weakness.

Compliance and Other Matters

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal award agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 14, 2009



Mary Taylor, CPA

Auditor of State

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

Fredericktown Local School District
Knox County
117 Columbus Road
Fredericktown, Ohio 43019

To the Board of Education:

Compliance

We have audited the compliance of Fredericktown Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Fredericktown Local School District, Knox County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above

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



Mary Taylor, CPA
Auditor of State

January 14, 2009

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.027 – Special Education Grants To States CFDA #10.553, #10.555, and #10.556 – Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Financial Statement Presentation - Significant Deficiency / Material Weakness

The following errors were noted involving the District's financial statement presentation:

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2008-001 (Continued)

Financial Statement Presentation - Significant Deficiency / Material Weakness (Continued)

Posting Errors	Opinion Unit	Amount
Internal Service-Charges for Services were overstated	Remaining Fund Information	\$197,526
Internal Service-Purchased Services and Claims Expense were overstated.	Remaining Fund Information	\$19,387; \$178,139
Construction in Process and Invested in Capital Assets, Net of Related Debt was overstated	Governmental Activities	\$911,212
Contracts Payable were posted as Accounts Payable.	General Fund, Governmental Activities	\$279,595
Contracts Payable were understated	General Fund, Governmental Activities	\$47,844
Capital Grants and Contributions were incorrectly posted as Operating Grants and Contributions	Governmental Activities	\$138,170
Unspent proceeds from capital leases payable to Invested in Capital Assets, Net of Related Debt.	Governmental Activities	\$1,132,617

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the District's financial statements.

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify variances and discrepancies.

We recommend the Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP). If necessary, those assigned to identify and summarize GAAP financial information should receive training related to GAAP reporting. By exercising accuracy in recording financial activity, the District can reduce posting errors and increase the reliability of the financial data throughout the year and at year-end.

The District's financial statements and accounting records have been adjusted to accurately reflect the above adjustments and proper line-item classifications.

Official's Response:

Management has indicated that the financial statements will be closely reviewed to help ensure material misstatements do not occur in subsequent reporting periods.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Financial Statement Presentation	No	Reissued, 2008-001



Mary Taylor, CPA
Auditor of State

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX 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
MARCH 12, 2009