



Dave Yost • Auditor of State

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio, as of June 30, 2010, and the respective changes in cash financial position, and the budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2010, the District changed its financial statement presentation from accounting principles generally accepted in the United States of America to the cash basis comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipt and expenditure schedule provides additional information required by the 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. The federal awards receipt and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 11, 2011

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The discussion and analysis of the Fostoria City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$2,774,476 which represents a 20.35% decrease from 2009.
- General receipts accounted for \$20,203,099 in receipts or 77.52% of all receipts. Program specific receipts in the form of charges for services and sales, and operating grants and contributions accounted for \$5,857,024 or 22.48% of all receipts.
- The District had \$28,834,599 in disbursements related to governmental activities; \$5,857,024 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were not adequate to provide for these programs.
- The District major funds are the general fund, bond retirement fund, and the permanent improvement fund.
- The general fund, the District's largest major fund had total receipts and other financing sources of \$18,500,996 in fiscal year 2010. The disbursements and other financing uses of the general fund totaled \$22,967,621 in fiscal year 2010. The general fund's balance decreased \$4,466,525 or 41.69% from fiscal year 2009 to fiscal year 2010.
- The bond retirement fund had total receipts and other financing sources of \$1,290,527 in fiscal year 2010. The bond retirement fund had total disbursements of \$844,114 in fiscal year 2010. The bond retirement fund balance increased \$446,413 or 53.18% from fiscal year 2009 to fiscal year 2010.
- The permanent improvement fund had total receipts of \$1,056,414 in fiscal year 2010. The permanent improvement fund had total disbursements of \$315,905 in fiscal year 2010. The permanent improvement fund balance increased \$740,509 or 55.89% from fiscal year 2009 to fiscal year 2010.

Using the Basic Financial Statements

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting an aggregate view of the District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The District's major funds are the general fund, bond retirement fund and permanent improvement fund.

Basis of Accounting

The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursements.

Essentially, the only assets reported on this strictly cash receipts and disbursement basis presentation in a statement of net assets will be cash and cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and statement of activities reflect how the District did financially during fiscal year 2010, (this is the first year) within the limitations of the cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental type activities of the District at fiscal year end. The statement of activities compares cash disbursements with program receipts of each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of the particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's net cash position and the changes in cash position. Keeping in mind the limitations of the cash basis accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well, such as the District's property tax base, the condition of the District's capital assets and infrastructure, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local receipt sources such as property and income taxes.

In the statement of net assets and statement of activities, the governmental activities include the District's programs and services including instruction, support services, operation and maintenance, food service operations, extracurricular activities, capital outlay and debt service.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below shows net assets for fiscal year 2010. Since this is the first year the District has prepared financial statements following the cash basis of accounting, net asset comparisons to prior fiscal years are not available.

	Net Assets
	Governmental Activities <u>2010</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 10,388,550
Cash with escrow agent	<u>470,005</u>
Total assets	<u><u>\$ 10,858,555</u></u>
<u>Net Assets</u>	
Restricted for:	
State funded programs	\$ 376,824
Federally funded programs	756,784
Capital Projects	2,099,035
Bus purchase	14,198
Debt service	1,285,833
Other Purposes	93,973
Unrestricted	<u>6,231,908</u>
Total net assets	<u><u>\$ 10,858,555</u></u>

Net assets of the governmental activities decreased \$2,744,476, which represents approximately a 20.35% decrease over the fiscal year 2009 balance. The decrease was caused by decreasing tax and intergovernmental receipts and increased cash disbursements for regular and special instruction as well as instructional staff.

The balance of government-wide unrestricted net assets of \$6,231,908 may be used to meet the District's ongoing obligations to citizens and creditors.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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(Continued)

The table below shows the change in net assets for fiscal year 2010. Since this is the first year the District has prepared financial statements following the cash basis of accounting, net asset comparisons to prior fiscal years are not available.

	Change in Net Assets
	Governmental Activities <u>2010</u>
<u>Receipts</u>	
Program receipts:	
Charges for services and sales	\$ 873,285
Operating grants and contributions	4,983,739
General receipts:	
Property taxes	7,613,276
Grants and entitlements	12,346,889
Proceeds from the Sale of Assets	1,525
Investment earnings	155,717
Other	85,692
Total receipts	\$ 26,060,123

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

	Change in Net Assets Governmental Activities <u>2010</u>
<u>Disbursements</u>	
Program disbursements:	
Instruction:	
Regular	\$ 11,931,918
Special	2,019,579
Vocational	246,611
Adult/continuing education	179,972
Other	548,901
Support services:	
Pupil	1,376,915
Instructional staff	2,701,447
Board of education	27,505
Administration	2,019,244
Fiscal	1,035,734
Operations and maintenance	2,284,591
Pupil transportation	1,195,842
Central	63,100
Operation of non-instructional services	360,005
Food service operations	1,207,460
Extracurricular activities	436,447
Capital Outlay	282,726
Debt Service:	
Principal Retirement	785,000
Interest and fiscal charges	131,602
Total disbursements	<u>28,834,599</u>
Change in net assets	(2,774,476)
Net assets at beginning of year	<u>13,633,031</u>
Net assets at end of year	<u>\$ 10,858,555</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$2,774,476. Total governmental disbursements of \$28,834,599 were offset by program receipts of \$5,857,024, and general receipts of \$20,203,099. Program receipts supported 22.48% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes and grants and entitlements. These receipt sources represent 76.59% of total governmental receipts.

The largest disbursement of the District is for instructional programs. Instruction disbursements totaled \$14,926,981 or 51.77% of total governmental disbursements for fiscal year 2010.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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(Continued)

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted state grants and entitlements. Since this is the first year the District has prepared financial statements following the cash basis of accounting, comparisons to prior fiscal years are not available.

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Governmental Activities		
Program disbursements		
Instruction:		
Regular	\$ 11,931,918	\$ 10,456,145
Special	2,019,579	560,695
Vocational	246,611	246,611
Adult/continuing education	179,972	160,988
Other	548,901	351,718
Support services:		
Pupil	1,376,915	1,282,182
Instructional staff	2,701,447	2,166,662
Board of education	27,505	27,505
Administration	2,019,244	2,019,244
Fiscal	1,035,734	399,785
Operations and maintenance	2,284,591	2,284,591
Pupil transportation	1,195,842	1,195,842
Central	63,100	63,100
Food service operations	1,207,460	153,281
Operation of non-instructional services	360,005	231,508
Extracurricular activities	436,447	178,390
Capital outlay	282,726	282,726
Debt Service:		
Principal retirement	785,000	785,000
Interest and fiscal charges	131,602	131,602
Total	<u>\$ 28,834,599</u>	<u>\$ 22,977,575</u>

The dependence upon tax and other general receipts for governmental activities is apparent, 78.89% of instruction activities are supported through taxes and other general receipts. For all governmental activities, general receipt support is 70.07%. The District's taxpayers and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District students.

The District's Funds

The District's governmental funds reported a combined fund balance of \$10,858,555, which is lower than last year's total of \$13,633,031. The schedule at the top of the following page indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2010 for the all of the District's major and nonmajor governmental funds.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

Governmental Activities

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Increase (Decrease)</u>
Major Funds:			
General	\$6,246,106	\$10,712,731	\$(4,466,625)
Bond Retirement	1,285,833	839,420	446,413
Permanent Improvement	2,065,527	1,325,018	740,509
Other Nonmajor Governmental Funds	<u>1,261,089</u>	<u>755,862</u>	<u>505,227</u>
 Total	 <u><u>\$10,858,555</u></u>	 <u><u>\$13,633,031</u></u>	 <u><u>\$(2,774,476)</u></u>

General Fund

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010 Amount</u>
<u>Receipts</u>	
Taxes	\$ 6,831,334
Tuition	394,398
Earnings on investments	120,914
Intergovernmental	11,009,917
Other revenues	<u>142,908</u>
 Total	 <u><u>\$18,499,471</u></u>
<u>Disbursements</u>	
Instruction	\$13,393,126
Support services	8,934,673
Extracurricular activities	305,567
Operation of non-instructional services	37,316
Capital outlay	22,492
Debt service	<u>77,288</u>
 Total	 <u><u>\$22,770,462</u></u>

The General Fund cash balance at June 30, 2010 was \$6,246,106, which represents 57.52% of total governmental fund cash balances. Receipts of the General Fund comprise \$18,499,471 (70.99%) of the total \$26,058,598 of governmental funds' receipts. Disbursements of the General Fund comprise \$22,770,462 (78.97%) of the total \$28,834,599 disbursements for the governmental funds. General fund disbursements were greater than receipts by \$4,270,991. The decrease in the General Fund balance was mainly caused by decreasing tax and intergovernmental receipts and increased cash disbursements for regular and special instruction as well as instructional staff.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)

Bond Retirement Fund

The bond retirement fund had total receipts and other financing sources of \$1,290,527 in fiscal year 2010. The bond retirement fund had total disbursements of \$844,114 in fiscal year 2010. The bond retirement fund balance increased \$446,413 or 53.18% from fiscal year 2009 to fiscal year 2010.

Permanent Improvement Fund

The permanent improvement fund had total receipts of \$1,056,414 in fiscal year 2010. The permanent improvement fund had total disbursements of \$315,905 in fiscal year 2010. The permanent improvement fund balance increased \$740,509 or 55.89% from fiscal year 2009 to fiscal year 2010.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budget several times. For the general fund, final budgeted receipts and other financing sources of \$20,765,174 were \$13,824,541 less than the original budgeted receipt estimate of \$34,589,715. The large decrease was necessary due to an error in the original amended certificate. Actual receipts and other financing sources of \$18,500,996 were \$2,264,178 less than the final budgeted amounts. The variance was mainly caused by budgeting for a large transfer that never occurred.

General fund actual expenditures plus other financing uses of \$23,268,460 were \$3,402,211 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$26,670,671 due to good planning and a tight control of overall expenditures. The original appropriations plus other financing uses were \$22,997,480 which was \$3,673,191 less than the final appropriations. Appropriations were increased to pay for increased health insurance premiums and to meet the District's spending needs.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis financial statements, but records payments for capital assets as disbursements; however the District does track its capital assets.

Debt Administration

At June 30, 2010 the District had \$5,654,763 in bonds and \$73,000 in capital leases outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. Of the bond total, \$745,000 is due within one year and \$4,909,763 is due within more than one year. The following table summarizes the debt outstanding.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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Outstanding Debt, at Year End

	Governmental Activities <u>2010</u>
Middle school refinancing bonds	\$ 4,416,763
QZAB Energy conservation bonds	1,238,000
Capital Leases	<u>73,000</u>
 Total	 <u>\$ 5,727,763</u>

At June 30, 2010, the District's overall legal debt margin was \$12,193,650 with an unvoted debt margin of \$187,640.

Current Financial Related Activities

Overall, the District remains financially viable although there are several challenges that lie ahead. The District, on its 2010 Local Report Card earned a district rating of Continuous improvement. A total of fourteen indicators were earned. The 2009-2010 Performance Index of 88.9 is in the Continuous Improvement range, and 1.1 points below the Effective. All district schools are rated Continuous Improvement.

Our District was unable to reach Adequate Yearly Progress (AYP), which is a measure that rewards the achievement of student groups within a school or district. Student Groups include: All students, economically disadvantaged, Asian/Pacific Islander, Black, Non Hispanic, American Indian/Alaskan, Hispanic, Multi-Racial, White, Non Hispanic, IEP, and LEP Groups. There is the potential for funding impact with our federal funds and also increased costs for mandatory busing of students to neighboring districts.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
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Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Jaime Golupski, Treasurer, Fostoria City School District, Administration Building, 500 Parkway Drive, Fostoria, Ohio 44830-1513.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$10,388,550
Cash with escrow agent.	470,005
 Total assets.	 \$10,858,555
 Net assets:	
Restricted for:	
State funded programs	\$376,824
Federally funded programs.	756,784
Capital projects	2,099,035
Bus purchase	14,198
Debt service.	1,285,833
Other purposes.	93,973
Unrestricted.	6,231,908
 Total net assets	 \$10,858,555

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Cash Receipts		Net (Disbursements) Revenue and Changes in Net Assets
	Cash	Charges for	Operating	Governmental
	Disbursements	Services	Grants and	Activities
		and Sales	Contributions	
Governmental activities:				
Instruction:				
Regular	\$11,931,918	\$492,883	\$982,890	(\$10,456,145)
Special	2,019,579		1,458,884	(560,695)
Vocational	246,611			(246,611)
Adult/Continuing education	179,972		18,984	(160,988)
Other	548,901		197,183	(351,718)
Support services:				
Pupil	1,376,915		94,733	(1,282,182)
Instructional staff	2,701,447		534,785	(2,166,662)
Board of education	27,505			(27,505)
Administration	2,019,244			(2,019,244)
Fiscal	1,035,734		635,949	(399,785)
Operations and maintenance	2,284,591			(2,284,591)
Pupil transportation	1,195,842			(1,195,842)
Central	63,100			(63,100)
Operation of non-instructional services	360,005		128,497	(231,508)
Food service operations	1,207,460	262,500	791,679	(153,281)
Extracurricular activities	436,447	117,902	140,155	(178,390)
Capital Outlay	282,726			(282,726)
Debt service:				
Principal retirement	785,000			(785,000)
Interest and fiscal charges	131,602			(131,602)
Total governmental activities	\$28,834,599	\$873,285	\$4,983,739	(22,977,575)
 General receipts:				
Property taxes levied for:				
General purposes				6,831,334
Debt service				575,374
Capital Projects				206,568
Grants and entitlements not restricted to specific programs				12,346,889
Proceeds from the sale of assets				1,525
Investment earnings				155,717
Miscellaneous				85,692
Total general receipts				20,203,099
Change in net assets				(2,774,476)
Net assets at beginning of year				13,633,031
Net assets at end of year				\$10,858,555

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$6,231,908	\$815,828	\$2,065,527	\$1,261,089	\$10,374,352
Cash with escrow agent		470,005			470,005
Restricted assets:					
Equity in pooled cash and cash equivalents	14,198				14,198
Total assets	<u><u>\$6,246,106</u></u>	<u><u>\$1,285,833</u></u>	<u><u>\$2,065,527</u></u>	<u><u>\$1,261,089</u></u>	<u><u>\$10,858,555</u></u>
Fund balances:					
Reserved for encumbrances	\$300,839		\$5,561	\$202,283	\$508,683
Reserved for bus purchase	14,198				14,198
Unreserved, undesignated, reported in:					
General fund	5,931,069				5,931,069
Special revenue funds.				1,025,298	1,025,298
Debt service fund		\$1,285,833			1,285,833
Capital projects funds.			2,059,966	33,508	2,093,474
Total fund balances	<u><u>\$6,246,106</u></u>	<u><u>\$1,285,833</u></u>	<u><u>\$2,065,527</u></u>	<u><u>\$1,261,089</u></u>	<u><u>\$10,858,555</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts:					
From local sources:					
Taxes	\$6,831,334	\$575,374	\$206,568		\$7,613,276
Tuition.	394,398				394,398
Earnings on investments.	120,914	11,500	23,099	\$204	155,717
Extracurricular.				117,902	117,902
Transportation Fees	72,722				72,722
Classroom materials and fees	25,763				25,763
Contributions and donations.				27,018	27,018
Food Services				262,500	262,500
Rental income.	915				915
Other local revenues.	43,508			14,251	57,759
Intergovernmental	11,009,917	593,230	826,747	4,900,734	17,330,628
Total receipts	<u>18,499,471</u>	<u>1,180,104</u>	<u>1,056,414</u>	<u>5,322,609</u>	<u>26,058,598</u>
Disbursements:					
Current:					
Instruction:					
Regular	11,382,729		21,882	527,307	11,931,918
Special.	1,642,006			377,573	2,019,579
Vocational.	246,611				246,611
Adult/Continuing.	16,391			163,581	179,972
Other.	105,389			443,512	548,901
Support services:					
Pupil.	1,242,932			133,983	1,376,915
Instructional staff	1,539,081			1,162,366	2,701,447
Board of education	27,505				27,505
Administration.	1,910,799			108,445	2,019,244
Fiscal	783,896	4,800	1,777	245,261	1,035,734
Operations and maintenance.	2,245,183		32,012	7,396	2,284,591
Pupil transportation	1,122,177			73,665	1,195,842
Central.	63,100				63,100
Operation of non-instructional services	37,316			322,689	360,005
Food service operations				1,207,460	1,207,460
Extracurricular activities.	305,567			130,880	436,447
Capital Outlay.	22,492		260,234		282,726
Debt service:					
Principal retirement	70,000	715,000			785,000
Interest and fiscal charges	7,288	124,314			131,602
Total disbursements	<u>22,770,462</u>	<u>844,114</u>	<u>315,905</u>	<u>4,904,118</u>	<u>28,834,599</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(4,270,991)</u>	<u>335,990</u>	<u>740,509</u>	<u>418,491</u>	<u>(2,776,001)</u>
Other financing sources (uses):					
Transfers in.		110,423		300	110,723
Transfers (out)	(110,723)				(110,723)
Advances in.				86,436	86,436
Advances (out)	(86,436)				(86,436)
Proceeds from sale of capital assets.	1,525				1,525
Total other financing sources (uses)	<u>(195,634)</u>	<u>110,423</u>		<u>86,736</u>	<u>1,525</u>
Net change in fund balances	(4,466,625)	446,413	740,509	505,227	(2,774,476)
Fund balances at beginning of year	<u>10,712,731</u>	<u>839,420</u>	<u>1,325,018</u>	<u>755,862</u>	<u>13,633,031</u>
Fund balances at end of year	<u>\$6,246,106</u>	<u>\$1,285,833</u>	<u>\$2,065,527</u>	<u>\$1,261,089</u>	<u>\$10,858,555</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
From local sources:				
Taxes	\$21,685,058	\$7,586,441	\$6,831,334	(\$755,107)
Tuition.	421,075	271,215	394,398	123,183
Earnings on investments.	129,093	224,850	120,914	(103,936)
Transportation Fees	77,641	40,688	72,722	32,034
Classroom materials and fees	27,506	59,120	25,763	(33,357)
Rental income	977	1,446	915	(531)
Other local revenues	85,525	375,296	43,508	(331,788)
Intergovernmental	12,156,661	11,135,400	11,009,917	(125,483)
Total receipts	<u>34,583,536</u>	<u>19,694,456</u>	<u>18,499,471</u>	<u>(1,194,985)</u>
Disbursements:				
Current:				
Instruction:				
Regular	11,282,495	12,281,815	11,418,630	863,185
Special.	1,622,525	2,468,636	1,642,102	826,534
Vocational.	243,895	265,893	246,838	19,055
Adult/Continuing	16,197	18,102	16,392	1,710
Other.	104,134	220,692	105,390	115,302
Support services:				
Pupil.	1,235,339	1,461,671	1,250,245	211,426
Instructional staff	1,548,696	1,708,919	1,567,383	141,536
Board of education	40,092	71,574	40,576	30,998
Administration.	1,906,178	2,110,813	1,929,178	181,635
Fiscal	791,896	867,156	801,451	65,705
Operations and maintenance.	2,350,340	2,480,288	2,378,699	101,589
Pupil transportation	1,139,418	1,314,424	1,153,166	161,258
Central.	62,348	63,899	63,100	799
Operation of non-instructional services	36,893	67,443	37,338	30,105
Extracurricular activities.	301,924	348,764	305,567	43,197
Capital Outlay.	37,505	76,969	37,958	39,011
Debt Service:				
Principal.	69,165	70,500	70,000	500
Interest and fiscal charges	7,201	7,500	7,288	212
Total disbursements	<u>22,796,241</u>	<u>25,905,058</u>	<u>23,071,301</u>	<u>2,833,757</u>
Excess (deficiency) of receipts over (under) disbursements	<u>11,787,295</u>	<u>(6,210,602)</u>	<u>(4,571,830)</u>	<u>1,638,772</u>
Other financing sources (uses):				
Transfers in.	4,551	1,000,000		(1,000,000)
Transfers (out)	(109,403)	(665,613)	(110,723)	554,890
Advances in.		70,171		(70,171)
Advances (out)	(91,836)	(100,000)	(86,436)	13,564
Proceeds from sale of capital assets.	1,628	547	1,525	978
Total other financing sources (uses).	<u>(195,060)</u>	<u>305,105</u>	<u>(195,634)</u>	<u>(500,739)</u>
Net change in fund balance	11,592,235	(5,905,497)	(4,767,464)	1,138,033
Fund balance at beginning of year	10,199,321	10,199,321	10,199,321	
Prior year encumbrances appropriated	513,410	513,410	513,410	
Fund balance at end of year	<u>\$22,304,966</u>	<u>\$4,807,234</u>	<u>\$5,945,267</u>	<u>\$1,138,033</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
JUNE 30, 2010

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$94,566	\$26,738
Net assets:		
Held in trust for scholarships	94,566	
Held for student activities	_____	26,738
Total net assets	\$94,566	\$26,738

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$2,096
Deductions:	
Scholarships awarded	2,500
Change in net assets	(404)
Net cash assets at beginning of year	94,970
Net cash assets at end of year	\$94,566

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - REPORTING ENTITY

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 276th largest in the State of Ohio (among 922 public and community school districts) in terms of enrollment. It is staffed by 123 non-certified employees and 194 certified full-time teaching personnel who provide services to 1,927 students and other community members. The District currently operates six instructional buildings, one administrative building, and three garages.

The reporting entity is composed of the primary government and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units.

C. Other Organizations

The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 1 - REPORTING ENTITY - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Centers

Vanguard-Sentinel Career Centers is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and two representatives from the Fremont City School District. The degree of control exercised by any participating school district is limited to its representation on the Board. The Center is its own budgeting and taxing authority. To obtain financial information write to the Vanguard-Sentinel Career Centers at 1306 Cedar Street, Fremont, Ohio 43420.

Northwestern Ohio Educational Research Council, Inc. (NOERC)

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

Bay Area Council of Governments (BACG)

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 1 - REPORTING ENTITY - (Continued)

Northwestern Ohio Special Educational Regional Resource Center

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

PUBLIC ENTITY RISK POOLS

Ohio School Plan

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

Ohio School Boards Association Workers' Compensation Group Rating Program

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

The District's management believes these financial statements present all activities for which the District is financially accountable.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.A, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the District's accounting policies.

A. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The following are the District's major governmental funds:

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

Permanent Improvement Fund - The permanent improvement fund is used to account for financial resources to be used for the acquisition, construction and remodeling or repairing of major capital facilities.

Bond Retirement Fund - The bond retirement fund is used to account for financial resources to be used for the payment of the District's debt.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The Government-Wide Statement of Activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by the Board of Education.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, a Fifth Third institutional money market and a U.S. government money market. Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in the STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the fund from which the investment was made. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$120,914, which includes \$36,932 assigned from other funds.

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets include the amount required by State statute to be set aside for bus purchases.

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

L. Fund Balance Reserves

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

M. Net Assets

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted cash are available.

N. Interfund Activity

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

Interfund activity between governmental funds is eliminated in the Statement of Activities.

NOTE 3 - COMPLIANCE

Ohio Administrative Code § 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim 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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the District had \$5,075 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

B. Cash with Escrow Agent

At fiscal year end the District had \$470,005, in cash with escrow agent to accumulate the required sinking fund deposits for the retirement of the Qualified Zone Academy Bonds (See Note 7.C. for detail). This amount is included on the financial statements as "cash with escrow agent" and is included in investments below.

C. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,592,088. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$1,380,820 of the District's bank balance of \$1,977,478 was exposed to custodial risk as discussed below, while \$596,658 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2010, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	19 to 24 months	Greater than 24 months
FHLM	\$ 1,852,205		\$ 248,922	\$ 1,352,734	\$ 250,549
FHLB	3,460,616	\$ 250,000	800,558	1,908,961	501,097
FFCB	200,000		200,000		
FNMA	663,523	149,458		514,065	
Fifth Third Institutional Money Market	1,357,200	1,357,200			
US Government money market	5,717	5,717			
STAR Ohio	1,373,430	1,373,430			
	<u>\$ 8,912,691</u>	<u>\$ 3,135,805</u>	<u>\$ 1,249,480</u>	<u>\$ 3,775,760</u>	<u>\$ 751,646</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is 1.01 years.

Interest Rate Risk: Interest rate risk arises potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. Treasury Bills are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLM	\$ 1,852,205	20.78
FHLB	3,460,616	38.83
FFCB	200,000	2.24
FNMA	663,523	7.45
Fifth Third Institutional Money market	1,357,200	15.23
US Government money market	5,717	0.06
STAR Ohio	<u>1,373,430</u>	<u>15.41</u>
Total	<u><u>\$ 8,912,691</u></u>	<u><u>100.00</u></u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfers to major bond retirement fund from:	<u>Amount</u>
General Fund	\$ 110,423
Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	\$ 300

Transfers were made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and interexchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 6 - PROPERTY TAXES- (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006 – 2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Seneca, Hancock and Wood Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 133,784,443	71.09	\$ 133,172,910	70.98
Commercial/industrial real estate	46,807,280	24.88	46,787,500	24.93
Public utility personal	<u>7,575,820</u>	<u>4.03</u>	<u>7,679,160</u>	<u>4.09</u>
Total	<u>\$ 188,167,543</u>	<u>100.00</u>	<u>\$ 187,639,570</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation for:

Operations	\$56.63	\$56.63
Debt service	3.40	3.40
Permanent improvement	1.73	1.73

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 7 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2010</u>	Amounts Due in <u>One Year</u>
<u>General obligation bonds</u>					
Middle school refinancing, Current interest bonds 3.2-4.7%, 12/1/16 maturity	\$ 2,905,000		\$ (715,000)	\$ 2,190,000	
Middle school refinancing, Capital appreciation bonds 4.55-4.75% (average effective) 12/01/10 to 12/01/13 maturity	413,505			413,505	\$ 127,820
Middle school refinancing, Capital appreciation bonds Accreted interest	1,497,236	\$ 316,022		1,813,258	617,180
QZAB - 0.50%	<u>1,238,000</u>			<u>1,238,000</u>	
Total bonds debt	<u>6,053,741</u>	<u>316,022</u>	<u>(715,000)</u>	<u>5,654,763</u>	<u>745,000</u>
Capital leases	<u>143,000</u>		<u>(70,000)</u>	<u>73,000</u>	<u>73,000</u>
Total	<u>\$ 6,196,741</u>	<u>\$ 316,022</u>	<u>\$ (785,000)</u>	<u>\$ 5,727,763</u>	<u>\$ 818,000</u>

- B. Middle School Refinancing Bonds - On January 1, 1999, the District issued middle school refinancing general obligation bonds. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these bonds are recorded as expenditures in the bond retirement fund (a nonmajor governmental fund).

This issue is comprised of both current interest bonds, par value \$8,610,000, and capital appreciation bonds, par value \$413,505. The interest rates on the current interest bonds range from 3.20% to 4.70%. The capital appreciation bonds mature on December 1, 2010 (effective interest 4.55%), December 1, 2011 (effective interest 4.60%), December 1, 2012 (effective interest 4.70%) and December 1, 2013 (effective interest 4.75%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for each capital appreciation bond is \$745,000. The District has a total of \$1,824,258 in accreted interest on the capital appreciation bonds as of June 30, 2010.

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

In a prior year, the District entered into a lease for software equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011		\$ 102,930	\$ 102,930	\$ 127,820	\$ 617,180	\$ 745,000
2012		102,930	102,930	110,148	634,852	745,000
2013		102,930	102,930	94,310	650,690	745,000
2014		102,930	102,930	81,227	663,773	745,000
2015		85,657	85,657			
2016-17	\$ 2,190,000	66,390	2,256,390			
Total	\$ 2,190,000	\$ 563,767	\$ 2,753,767	\$ 413,505	\$ 2,566,495	\$ 2,980,000

Fiscal Year Ended	Capital Lease		Total
	Principal	Interest	
2011	\$ 73,000	\$ 1,427	\$ 74,427

- C. During fiscal year 2006, the District issued \$1,238,000 in Energy Conservation Facility Bonds, Qualified Zone Academy Bonds (QZAB). The QZAB Series 2005 bonds mature September 23, 2015. The District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on September 23, in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date) except the final principal payment date shall be the maturity date:

September 23 of year	Amounts Due	Amounts Deposited
2006	\$ 110,423	\$ 110,423
2007	110,423	110,423
2008	110,423	110,423
2009	110,423	110,423
2010	110,423	
2011	110,423	
2012	110,423	
2013	110,423	
2014	110,423	
	\$ 993,807	\$ 441,692

**FOSTORIA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

The QZAB Series 2005 bonds required stated annual interest payments. During fiscal year 2010, the District made \$110,423 in sinking fund deposits. The resources, being accumulated through the sinking fund, are reported in the bond retirement fund (a major governmental fund). The required sinking fund deposits are expected to be sufficient to retire the QZAB Series 2005 bonds upon maturity.

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$12,193,650, and an unvoted debt margin of \$187,640.

NOTE 8 - RISK MANAGEMENT

A. Ohio School Plan

The District belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurances carriers. Only if the Plan's paid liability loss ratio exceeds 65 percent and is less than 80 percent does the Plan contribute to paid claims. (See the Plan's audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008 (the latest information available):

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 8 - RISK MANAGEMENT - (Continued)

	<u>2009</u>	<u>2008</u>
Assets	\$ 3,662,470	\$ 3,273,989
Liabilities	1,729,914	1,873,157
Members' equity	1,932,556	1,400,832

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, www.ohioschoolplan.org.

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

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

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

The District provides life insurance and accidental death and dismemberment insurance to classified employees who work 6 hours per day in the amount of \$20,000; for employees who work 4 to 6 hours per day in the amount of \$10,000; and for employees working less than 4 hours per day \$5,000.

The District provides life insurance to administrators in the amount of \$50,000.

The District provides life insurance and accidental death and dismemberment insurance to secretaries and fiscal services personnel who work 6 hours per day or more \$30,000; 4 to 6 hours per day \$15,000; and less than 4 hours per day \$7,500.

The District has elected to provide a comprehensive medical benefits package to the employees through a fully insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. Medical Mutual Insurance Company administers the medical plan. The total monthly premium for medical is \$698.92 for single coverage and \$1,526.47 for family coverage. The District's portion of the monthly premium is \$629.03 for single coverage and \$1,373.83 for family coverage, which is paid out of the same fund that pays the salary for the employees. The employee monthly portion of the premium is \$69.89 for single coverage and \$152.64 for family coverage, which is withheld from their biweekly payroll.

Effective January 1, 2006, the Board had another medical plan referred to as the "Core Plan" available for employees to choose for a slightly lower premium. The Core Plan allows for a \$200 single and \$400 family deductible in network and a \$400 single and \$800 family out of network deductible. This medical plan was also carried by Medical Mutual Insurance Company. The total monthly premiums for medical are \$637.07 for single coverage and \$1,391.32 for family coverage. The District's portion of the monthly premium is \$605.22 for single coverage and \$1,321.76 for family coverage, which is paid for out of the same fund that pays the salary of the employee. The employee portion for the Core Plan is \$31.86 for single coverage and \$69.57 for family coverage, which is withheld from their biweekly payroll.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 8 - RISK MANAGEMENT - (Continued)

The District provides dental coverage for its employees on a fully insured basis through Core Source. The total monthly premium is \$69.30 for single and \$69.30 for family coverage. This premium includes the employee portion, which is paid by the District.

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

C. Workers' Compensation

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

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

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

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

**FOSTORIA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$381,948, \$245,117 and \$226,332, respectively; 42.67 percent as been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The 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 website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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.

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,263,870, \$1,223,174 and \$1,143,028, respectively; 82.61 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$38,928.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$52,676, \$163,794 and \$152,646, respectively; 42.67 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$22,714, \$20,224 and \$16,308, respectively; 42.67 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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.strsoh.org or by calling (888) 227-7877.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$97,221, \$94,090 and \$87,925, respectively; 82.61 percent as been contributed for fiscal year 2010 and 100 percent has been contributed for 2009 and 2008.

NOTE 11 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 12 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2009	\$ (768,937)	
Current year set-aside requirement	316,468	\$316,468
Qualifying disbursements	<u>(680,341)</u>	<u>(338,663)</u>
Total	<u>\$ (1,132,810)</u>	<u>\$ (22,195)</u>
Balance carried forward to fiscal year 2011	<u>\$ (1,132,810)</u>	<u> </u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks/instructional materials and capital acquisition reserve. The extra amounts spent for textbooks/instructional materials may be used to reduce the set-aside requirement for future years; however, the current year offset and excess qualifying disbursements of capital acquisition set-asides may not be carried forward. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 12 - STATUTORY RESERVES – (Continued)

In addition, the District has received \$14,198 from the State of Ohio that is restricted for school bus purchases.

NOTE 13 - CHANGE IN BASIS OF ACCOUNTING

During 2010, the District changed from reporting on a GAAP basis to the cash basis of accounting. The District has also elected to present the cash basis financial statements in a GASB 34-like format. The fund balances for June 30, 2009 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

For reporting in accordance with GASB 34-like statements, the District is required to present government-wide financial statements. These statements consolidate all governmental activities in a single column.

The transition from the GAAP basis to the cash basis of accounting had the following effect on fund balances at June 30, 2009:

	General Fund	Debt Service Fund	Permanent Improvement Fund	Nonmajor Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
GAAP Basis					
June 30, 2009	\$9,662,895	\$909,978	\$1,360,791	\$309,263	\$12,242,927
Accrual Adjustments	<u>1,049,836</u>	<u>(70,558)</u>	<u>(35,773)</u>	<u>446,599</u>	<u>1,390,104</u>
Restated Fund Balance					
June 30, 2009	<u>\$10,712,731</u>	<u>\$839,420</u>	<u>\$1,325,018</u>	<u>\$755,862</u>	<u>\$13,633,031</u>
Governmental Activities Net Assets at June 30, 2009					<u>\$ 13,633,031</u>

The governmental activities net assets at June 30, 2009 equal the restated fund balances at June 30, 2009.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>			
Child and Adult Care Food Program	10.558	\$ 53,246	\$ 53,246
ARRA - School Lunch Equipment	10.579	18,000	18,000
<u>Nutrition Cluster:</u>			
National School Lunch Program			
Non-Cash Assistance	10.555	54,789	54,789
Cash Assistance		525,491	525,492
Total National School Lunch Program		580,280	580,281
Summer Food Service Program for Children	10.559	33,658	33,658
School Breakfast Program	10.553	140,758	140,752
Total Nutrition Cluster		754,696	754,691
Total U.S. Department of Agriculture		825,942	825,937
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
<u>Title I Cluster</u>			
Title I Grants to Local Educational Agencies	84.010	799,971	833,389
ARRA - Title I Grants to Local Educational Agencies	84.389	159,704	165,703
Total Title I Cluster		959,675	999,092
<u>Special Education Cluster</u>			
Education - Grants to States	84.027	629,747	545,187
ARRA - Special Education - Grants to States	84.391	219,918	135,580
Special Education - Preschool Grants	84.173	42,906	41,275
ARRA - Special Education - Preschool Grants	84.392	9,222	8,612
Total Special Education Cluster		901,793	730,654
Safe and Drug Free Schools and Communities - State Grants	84.186	8,331	15,408
Twenty-First Century Community Learning Centers	84.287	425,000	411,063
<u>Education Technology State Grants Cluster</u>			
Education Technology State Grants	84.318	10,410	10,320
ARRA - Education Technology State Grants	84.386	107,513	90,304
Total Education Technology State Grants Cluster		117,923	100,624
English Language Acquisition Grants	84.365	10,634	13,352

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
Improving Teacher Quality State Grants	84.367	129,562	203,142
School Improvement	84.377	169,912	123,725
<u>McKinney-Vento Homeless Children Cluster</u>			
McKinney-Vento Homeless Children	84.196	41,238	45,082
ARRA - McKinney-Vento Homeless Children	84.387	5,503	1,737
Total McKinney-Vento Homeless Children Cluster		46,741	46,819
Adult Education - State Grant Program	84.002	115,156	110,230
ARRA - State Fiscal Stabilization Fund	84.394	635,949	326,436
Total U.S. Department of Education		3,520,676	3,080,545
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Seneca County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	2,531	11,837
Total Federal Awards Receipt and Expenditure		\$4,349,149	\$ 3,918,319

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipt and Expenditure Schedule (the Schedule) reports the Fostoria City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2011, wherein we noted the District changed its financial statement presentation from accounting principles generally accepted in the United States of America to the cash basis of accounting. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be 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 instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-002 and 2010-003.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 11, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

March 11, 2011



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Fostoria City School District, Seneca County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2010. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Fostoria City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2010-004.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2010-004. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted matters involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 11, 2011.

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



Dave Yost
Auditor of State

March 11, 2011

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA #84.010 Title I Grants to Local Educational Agencies CFDA #84.389 ARRA Title I Grants to Local Educational Agencies CFDA #84.027 Special Education Grants to States CDFA #84.391 ARRA Special Education Grants to States CFDA #84.173 Special Education Preschool Grants CFDA #84.392 ARRA Special Education Preschool Grants CFDA #84.318 Education Technology State Grants CFDA #84.386 ARRA Education Technology State Grants CFDA #84.394 ARRA State Fiscal Stabilization Fund Education State Grants
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Material Weakness

Financial Reporting

The review of the financial statements resulted in the following significant audit adjustments:

- Prior year adjustments were corrected by the District as current year receipts, which resulted in misstated receipts and beginning cash balances for the General Fund (\$413,380), Permanent Improvement Fund (\$148,110), Bond Retirement Fund (\$228,443) and Other Governmental Funds. (\$15,153)
- The beginning cash with escrow agent for the Bond Retirement Fund was not recorded within the beginning balance of the bond retirement fund. (\$348,082)
- Advances out of the General Fund (\$80,831) were recorded as negative Advances-In.
- The debt service sinking fund transfer was recorded as debt service principle disbursement, rather than a cash transfer between bank accounts. (\$110,423)
- Net Assets restricted for other purposes on the Statement of Net Assets (\$1,129,345) were reclassified as restricted for state funded programs (\$372,561) and restricted for federally funded programs. (\$756,784)

Additional audit adjustments were made in smaller relative amounts.

Sound financial reporting is the responsibility of the Treasurer and Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the District's financial statements and notes to the statements are complete and accurate, the District should adopt policies and procedures, including a final review of the annual report by the Treasurer and Board of Education to identify and correct errors and omissions.

FINDING NUMBER 2010-002

Noncompliance Citation

Ohio Revised Code § 117.38 provides each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Administrative Code § 117-2-03 (B), which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles in the United States of America.

The District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its statements in accordance with generally accepted accounting principles in the United States of America.

FINDING NUMBER 2010-003

Noncompliance Citation

Ohio Revised Code §135.14(B)(5) states the Treasurer or governing board may invest or deposit any part or all of the interim moneys in no-load money market mutual funds consisting exclusively of obligations described in division (B) (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Ohio Revised Code §135.14(B)(1) authorizes investments in United States treasury bills, notes, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.

Ohio Revised Code §135.14(B)(2) authorizes investments in Bonds, notes debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

At June 30, 2010, the District invested \$1,357,200 in the Fifth Third Institutional Money Market Fund. This fund does not exclusively invest in the allowable items Ohio Revised Code §135.14(B)(1) and (2) described above. We recommend the District only invest in funds that are allowable per the Ohio Revised Code.

3. FINDINGS FOR FEDERAL AWARDS

State Fiscal Stabilization Fund Cash Management

Finding Number	2010-004
CFDA Title and Number	CFDA 84.394 ARRA State Fiscal Stabilization Fund Education State Grants
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency and Noncompliance Citation

34 CFR 80.20(b)(7) requires federal grant recipients to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency. When advances are made by letter-of-credit or electronic funds transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure they conform substantially to the same standards of time and amount as apply to advances to the grantees.

SFSF program funds were advanced to the District through the foundation program on a bi-monthly basis. LEA's must have an internal control system in place for ensure advance SFSF payments are spent timely (i.e., within 30 days).

The District received \$635,949 in SFSF funding during the fiscal year, but only spent \$326,436 as of June 30, 2010. The total receipts exceeded disbursements by \$309,513 for the fiscal year, which represents approximately 6 months worth of receipts. SFSF funds were not disbursed timely (within 30 days) after they were received.

We recommend the District implement an internal control system for ensuring advance SFSF payments are spent timely.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-004	The District will correct our accounts so the federal dollars are spent on a bi-weekly basis. We will also conduct internal audits in order to make sure the money is spent timely.	March 31, 2011	Jamie Pearson, Treasurer

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Material weakness over bank reconciliations.	Yes	
2009-002	Material Weakness over financial reporting.	No	Not Corrected; repeated as Finding #2010-001 in this report.



Dave Yost • Auditor of State

FOSTORIA CITY SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2011**