

Mary Taylor, CPA
Auditor of State

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, Ohio, as of June 30, 2009, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with

Government Auditing Standards. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

February 11, 2010

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities decreased \$266,563 which represents a 1.76% decrease from 2008.
- General revenues accounted for \$20,245,686 in revenue or 77.10% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,013,328 or 22.90% of all revenues.
- The District had \$26,525,577 in expenses related to governmental activities; \$6,013,328 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were not adequate to provide for these programs.
- The General fund, the District's only major governmental fund had \$19,916,169 in revenues and \$20,893,654 in expenditures and other financing uses. The fund balance of the general fund decreased from \$10,640,380 to \$9,662,895.
- The District has \$9,131,511 in capital assets at June 30, 2009. This amount is net of accumulated depreciation in the amount of \$15,858,485. Fiscal year 2009 depreciation expense was \$637,072. Total capital assets, net of related debt to acquire or construct the assets, were \$4,432,006 at June 30, 2009.
- The District has \$7,392,459 in long-term liabilities outstanding at June 30, 2009. Of this total, \$851,254 is due within one year and \$6,541,205 is due in more than one year.

Using this Financial Report

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)

Notes to the Basic Financial Statements

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

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2009 and 2008.

	Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Assets</u>		
Current and other assets	\$ 23,778,676	\$ 24,453,342
Capital assets, net	<u>9,131,511</u>	<u>9,573,583</u>
Total assets	<u>32,910,187</u>	<u>34,026,925</u>
<u>Liabilities</u>		
Current liabilities	10,660,730	10,902,730
Long-term liabilities	<u>7,392,459</u>	<u>8,000,634</u>
Total liabilities	<u>18,053,189</u>	<u>18,903,364</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,432,006	4,122,078
Restricted	3,160,418	2,304,264
Unrestricted	<u>7,264,574</u>	<u>8,697,219</u>
Total net assets	<u>\$ 14,856,998</u>	<u>\$ 15,123,561</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$14,856,998.

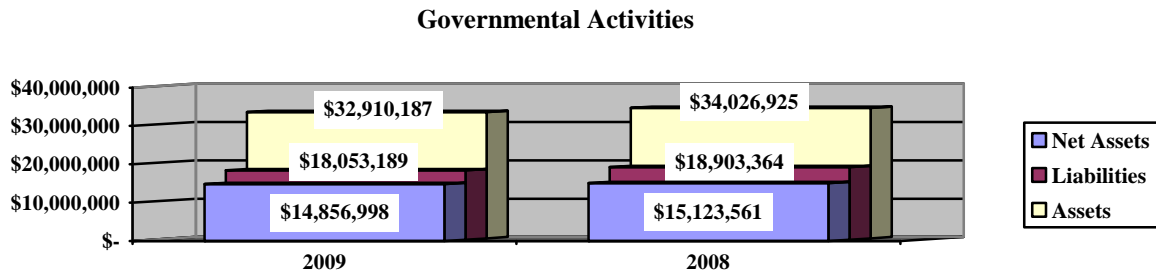
At year end, capital assets represented 27.75% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$4,432,006. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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A portion of the District's net assets, \$3,160,418, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$7,264,574 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's assets, liabilities and net assets at June 30, 2009 and 2008:



The table below shows the change in net assets for fiscal year 2009 and 2008. Intergovernmental pass-through expenditures for 2008 have been reclassified to other non-instructional services expenditures to conform to 2009 presentation.

Change in Net Assets

	Governmental Activities 2009	Governmental Activities 2008
Revenues		
Program revenues:		
Charges for services and sales	\$ 743,554	\$ 855,113
Operating grants and contributions	5,255,576	4,732,154
Capital grants and contributions	14,198	7,020
General revenues:		
Property taxes	8,396,898	8,190,968
Grants and entitlements	11,452,366	10,847,028
Investment earnings	301,455	593,335
Other	94,967	126,147
Total revenues	26,259,014	25,351,765

**FOSTORIA CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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	Change in Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 11,342,705	\$ 10,432,535
Special	2,521,334	2,396,644
Vocational	236,310	225,688
Adult/continuing education	74,229	72,259
Other	859,477	1,228,032
Support services:		
Pupil	1,201,456	874,340
Instructional staff	1,792,667	1,818,992
Board of education	31,852	36,552
Administration	1,963,604	1,978,242
Fiscal	568,280	648,237
Business		57,227
Operations and maintenance	2,408,591	1,970,281
Pupil transportation	997,347	986,498
Central	61,066	42,593
Operation of non-instructional services:		
Food service operations	1,243,348	1,176,394
Other non-instructional services	407,595	388,699
Extracurricular activities	394,192	382,531
Interest and fiscal charges	421,524	411,800
Total expenses	<u>26,525,577</u>	<u>25,127,544</u>
Change in net assets	(266,563)	224,221
Net assets at beginning of year	<u>15,123,561</u>	<u>14,899,340</u>
Net assets at end of year	<u>\$ 14,856,998</u>	<u>\$ 15,123,561</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$266,563. Total governmental expenses of \$26,525,577 were offset by program revenues of \$6,013,328, and general revenues of \$20,245,686. Program revenues supported 22.67% of the total governmental expenses.

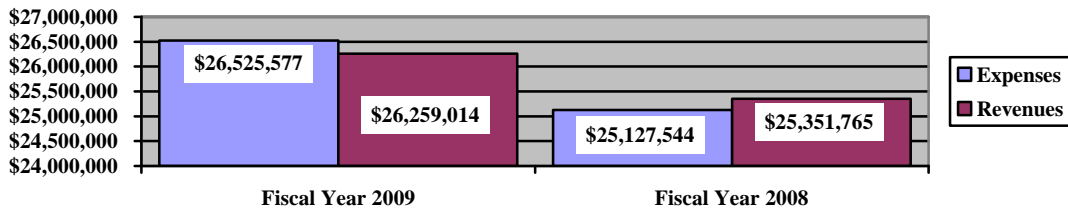
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 75.59% of total governmental revenue. Real estate property is reappraised every six years.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2009 and 2008.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. Intergovernmental pass-through expenditures for 2008 have been reclassified to other non-instructional services expenditures to conform to 2009 presentation.

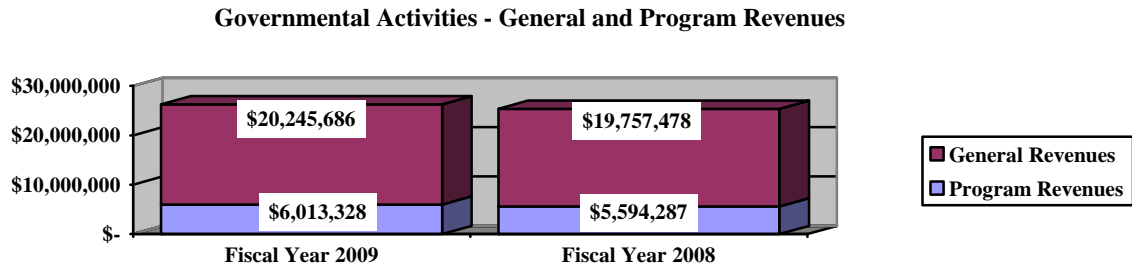
	Governmental Activities			
	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses				
Instruction:				
Regular	\$ 11,342,705	\$ 10,241,099	\$ 10,432,535	\$ 9,456,311
Special	2,521,334	1,228,607	2,396,644	1,107,469
Vocational	236,310	175,443	225,688	163,212
Adult/continuing education	74,229	9,612	72,259	30,463
Other	859,477	(16,308)	1,228,032	414,381
Support services:				
Pupil	1,201,456	1,126,472	874,340	830,505
Instructional staff	1,792,667	1,037,253	1,818,992	1,159,382
Board of education	31,852	31,852	36,552	36,552
Administration	1,963,604	1,857,167	1,978,242	1,882,281
Fiscal	568,280	568,280	648,237	648,237
Business			57,227	57,227
Operations and maintenance	2,408,591	2,390,061	1,970,281	1,946,296
Pupil transportation	997,347	896,925	986,498	892,608
Central	61,066	61,066	42,593	42,593
Food service operations	1,243,348	111,429	1,176,394	109,736
Other non-instructional services	407,595	48,720	388,699	41,933
Extracurricular activities	394,192	323,047	382,531	302,271
Interest and fiscal charges	421,524	421,524	411,800	411,800
Total	<u>\$ 26,525,577</u>	<u>\$ 20,512,249</u>	<u>\$ 25,127,544</u>	<u>\$ 19,533,257</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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The dependence upon tax and other general revenues for governmental activities is apparent, 77.41% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.33%. 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 graph below presents the District's governmental activities revenue for fiscal year 2009 and 2008.



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,242,927, which is lower than last year's total of \$13,037,305. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	<u>Fund Balance June 30, 2009</u>	<u>Fund Balance June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 9,662,895	\$ 10,640,380	\$ (977,485)	(9.19) %
Other Governmental	<u>2,580,032</u>	<u>2,396,925</u>	<u>183,107</u>	7.64 %
Total	<u>\$ 12,242,927</u>	<u>\$ 13,037,305</u>	<u>\$ (794,378)</u>	(6.09) %

General Fund

During fiscal year 2009, the District's general fund balance decreased by \$977,485, which can be attributed to decreasing revenues no longer exceeding the increasing expenditures.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)

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

	2009 <u>Amount</u>	2008 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 7,322,556	\$ 7,781,599	\$ (459,043)	(5.90) %
Tuition	210,114	330,841	(120,727)	(36.49) %
Earnings on investments	235,244	550,219	(314,975)	(57.25) %
Intergovernmental	11,505,067	11,226,010	279,057	2.49 %
Other revenues	<u>643,188</u>	<u>300,961</u>	<u>342,227</u>	113.71 %
Total	<u>\$19,916,169</u>	<u>\$20,189,630</u>	<u>\$ (273,461)</u>	(1.35) %
<u>Expenditures</u>				
Instruction	\$12,510,740	\$ 11,200,404	\$ 1,310,336	11.70 %
Support services	7,758,870	7,120,480	638,390	8.97 %
Extracurricular activities	302,055	270,639	31,416	11.61 %
Operation of non-instructional services	46,422	37,109	9,313	25.10 %
Facilities acquisition and construction	65,848	19,000	46,848	246.57 %
Debt service	<u>71,106</u>	<u>103,704</u>	<u>(32,598)</u>	(31.43) %
Total	<u>\$20,755,041</u>	<u>\$ 18,751,336</u>	<u>\$ 2,003,705</u>	10.69 %

The most significant change in revenues occurred in tax revenues. Tax revenues decreased 5.90% due to the phase out of the tangible personal property tax (see Note 6 for detail). Investment earnings decreased due to a decrease in interest rates. Other revenues increased due to the increase in transportation fees, classroom materials and fees as well as other miscellaneous charges and fees. The most significant change in expenditures occurred in expenditures related to instruction and support services. Instruction expenditures increased \$1,310,336 as a result of additional teaching staff in fiscal year 2009. Support services expenditures increased \$638,390 due to an increase in expenditures related to personnel.

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 2009, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$20,584,381 were \$14,110 more than the original budgeted revenues estimate of \$20,570,271. Actual revenues and other financing sources of \$19,873,466 were \$710,915 lower than the final budgeted amounts.

General fund actual expenditures plus other financing uses of \$21,411,784 were \$995,153 lower than the final appropriations (appropriated expenditures plus other financing uses) of \$22,406,937 due to good planning and a tight control of overall expenditures. The original appropriations plus other financing uses were \$21,838,367 which was \$568,570 less than the final appropriations.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the District had \$9,131,511 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2009 balances compared to 2008:

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

	Governmental Activities	
	2009	2008
Land	\$ 264,497	\$ 264,497
Land improvements	361,751	217,018
Buildings and improvements	7,950,371	8,425,941
Furniture and equipment	110,109	137,712
Vehicles	444,783	528,415
Total	<u>\$9,131,511</u>	<u>\$9,573,583</u>

Total additions to capital assets for 2009 were \$195,000 and depreciation expense was \$637,072.

Debt Administration

At June 30, 2009, the District had \$6,053,741 in bonds and \$143,000 in capital leases outstanding. The bond issues are comprised of current issue bonds and capital appreciation bonds. Of this total, \$785,000 is due within one year and \$5,411,741 is due within more than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2009	Governmental Activities 2008
Middle school refinancing bonds	\$ 4,815,741	\$ 5,229,568
QZAB Energy conservation bonds	1,238,000	1,238,000
Capital Leases	143,000	210,000
Total	<u>\$ 6,196,741</u>	<u>\$ 6,677,568</u>

At June 30, 2009, the District's overall legal debt margin was \$9,370,964 with an unvoted debt margin excluding energy conservation of \$140,994 and an unvoted debt margin related to energy conservation of \$30,947.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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Current Financial Related Activities

Overall, the District remains financially viable although there are several challenges that lie ahead. The District increased by three additional indicators on the 2008-2009 Local Report Card and earned a district rating of Continuous Improvement. A total of 11 indicators were earned, including Grade 3 Math, Grade 4 Math and Writing, Grade 6 Reading, Grade 7 Writing, Grade 10 reading and writing, Grade 11 Reading, Writing, and Social Studies, and District Wide Attendance. The 2008-2009 Performance Index of 87.4 is in the Continuous Improvement range, and is 2.6 points below the Effective range. Fostoria High School is designated as Effective while Fostoria Middle School, Riley, Field, and Longfellow have Continuous Improvement designations.

Our District met 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.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 13,300,886
Cash with escrow agent	348,082
Receivables:	
Taxes	9,626,870
Accounts	15,104
Intergovernmental	394,890
Accrued interest	38,406
Prepayments	7,222
Materials and supplies inventory	47,216
Capital assets:	
Land	264,497
Depreciable capital assets, net	8,867,014
Capital assets, net.	9,131,511
 Total assets.	 32,910,187
 Liabilities:	
Accounts payable.	533,083
Accrued wages and benefits	1,410,700
Intergovernmental payable	85,145
Accrued interest payable	19,284
Pension obligation payable	495,733
Unearned revenue	8,116,785
Long-term liabilities:	
Due within one year.	851,254
Due in more than one year	6,541,205
 Total liabilities	 18,053,189
 Net assets:	
Invested in capital assets, net of related debt.	4,432,006
Restricted for:	
Capital projects	1,557,564
Debt service.	1,160,158
Locally funded programs	56,658
State funded programs	186,312
Federally funded programs	134,411
Student activities	18,017
Other purposes	47,298
Unrestricted.	7,264,574
 Total net assets	 \$ 14,856,998

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 11,342,705	\$ 282,472	\$ 819,134		\$ (10,241,099)
Special	2,521,334		1,292,727		(1,228,607)
Vocational	236,310		60,867		(175,443)
Adult/continuing education	74,229		64,617		(9,612)
Other	859,477		875,785		16,308
Support services:					
Pupil	1,201,456		74,984		(1,126,472)
Instructional staff	1,792,667		755,414		(1,037,253)
Board of education	31,852				(31,852)
Administration	1,963,604	40,671	65,766		(1,857,167)
Fiscal	568,280				(568,280)
Operations and maintenance	2,408,591	2,191	16,339		(2,390,061)
Pupil transportation	997,347	43,244	42,980	\$ 14,198	(896,925)
Central	61,066				(61,066)
Operation of non-instructional services:					
Food service operations	1,243,348	303,463	828,456		(111,429)
Other non-instructional services	407,595	1,662	357,213		(48,720)
Extracurricular activities	394,192	69,851	1,294		(323,047)
Interest and fiscal charges	421,524				(421,524)
Total governmental activities	\$ 26,525,577	\$ 743,554	\$ 5,255,576	\$ 14,198	(20,512,249)

General revenues:

Property taxes levied for:	
General purposes	7,548,323
Debt service	620,587
Capital projects	227,988
Grants and entitlements not restricted	
to specific programs	11,452,366
Investment earnings	301,455
Miscellaneous	94,967
Total general revenues	20,245,686
Change in net assets	(266,563)
Net assets at beginning of year	15,123,561
Net assets at end of year	\$ 14,856,998

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 10,704,111	\$ 2,582,577	\$ 13,286,688
Receivables:			
Taxes	8,651,579	975,291	9,626,870
Accounts	11,400	3,704	15,104
Intergovernmental	7,100	387,790	394,890
Accrued interest	31,979	6,427	38,406
Interfund loans	78,944		78,944
Prepayments	4,822	2,400	7,222
Materials and supplies inventory	35,454	11,762	47,216
Restricted assets:			
Cash with escrow agent		348,082	348,082
Equity in pooled cash and cash equivalents	14,198		14,198
Total assets	<u>\$ 19,539,587</u>	<u>\$ 4,318,033</u>	<u>\$ 23,857,620</u>
Liabilities:			
Accounts payable	\$ 291,318	\$ 241,765	\$ 533,083
Accrued wages and benefits	1,221,999	188,701	1,410,700
Compensated absences payable	18,865		18,865
Pension obligation payable	443,183	52,550	495,733
Intergovernmental payable	71,119	14,026	85,145
Interfund loan payable		78,944	78,944
Deferred revenue	536,495	338,943	875,438
Unearned revenue	7,293,713	823,072	8,116,785
Total liabilities	<u>9,876,692</u>	<u>1,738,001</u>	<u>11,614,693</u>
Fund balances:			
Reserved for encumbrances	230,046	123,804	353,850
Reserved for materials and supplies inventory	35,454	11,762	47,216
Reserved for prepayments	4,822	2,400	7,222
Reserved for property tax unavailable for appropriation	821,896	93,493	915,389
Reserved for school bus purchases	14,198		14,198
Undesignated, reported in:			
General fund	8,556,479		8,556,479
Special revenue funds		137,789	137,789
Debt service fund		840,887	840,887
Capital projects funds		1,369,897	1,369,897
Total fund balances	<u>9,662,895</u>	<u>2,580,032</u>	<u>12,242,927</u>
Total liabilities and fund balances	<u>\$ 19,539,587</u>	<u>\$ 4,318,033</u>	<u>\$ 23,857,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$ 12,242,927
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,131,511
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 564,081	
Intergovernmental receivable	280,695	
Accrued interest receivable	<u>30,662</u>	
Total		875,438
Accrued interest payable is not due and payable within the current period and therefore is not reported in the funds.		(19,284)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences payable	(1,176,853)	
General obligation bonds payable	(6,053,741)	
Capital lease obligation payable	<u>(143,000)</u>	
Total		<u>(7,373,594)</u>
Net assets of governmental activities		<u>\$ 14,856,998</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 7,322,556	\$ 824,320	\$ 8,146,876
Tuition.	210,114		210,114
Transportation fees	43,244		43,244
Charges for services.		303,463	303,463
Earnings on investments.	235,244	69,507	304,751
Extracurricular.		83,893	83,893
Classroom materials and fees	44,270		44,270
Other local revenues	510,010	45,397	555,407
Other revenue	45,664	51,102	96,766
Intergovernmental - State	11,505,067	1,595,963	13,101,030
Intergovernmental - Federal.		2,845,437	2,845,437
Total revenue	19,916,169	5,819,082	25,735,251
Expenditures:			
Current:			
Instruction:			
Regular	10,173,108	761,567	10,934,675
Special.	1,959,061	554,176	2,513,237
Vocational.	230,555		230,555
Adult/continuing education	8,242	65,268	73,510
Other.	139,774	719,703	859,477
Support services:			
Pupil.	1,125,525	73,111	1,198,636
Instructional staff	1,077,720	673,896	1,751,616
Board of education	31,852		31,852
Administration.	1,831,794	108,164	1,939,958
Fiscal	556,274	4,097	560,371
Operations and maintenance.	2,186,249	16,241	2,202,490
Pupil transportation	890,974	20,082	911,056
Central.	58,482		58,482
Operation of non-instructional services:			
Food service operations		1,202,222	1,202,222
Other non-instructional services	46,422	360,518	406,940
Extracurricular activities.	302,055	83,885	385,940
Facilities acquisition and construction	65,848	302,074	367,922
Debt service:			
Principal retirement	67,000	685,000	752,000
Interest and fiscal charges	4,106	144,584	148,690
Total expenditures	20,755,041	5,774,588	26,529,629
Excess (deficiency) of revenues over (under) expenditures	(838,872)	44,494	(794,378)
Other financing sources (uses):			
Transfers in.		138,613	138,613
Transfers (out)	(138,613)		(138,613)
Total other financing sources (uses)	(138,613)	138,613	
Net change in fund balances	(977,485)	183,107	(794,378)
Fund balances at beginning of year.	10,640,380	2,396,925	13,037,305
Fund balances at end of year.	\$ 9,662,895	\$ 2,580,032	\$ 12,242,927

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds \$ (794,378)

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

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

Capital asset additions	\$ 195,000	
Current year depreciation	<u>(637,072)</u>	
Total		(442,072)

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

Taxes	250,022	
Intergovernmental revenue	268,630	
Interest revenue	<u>5,111</u>	
Total		523,763

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

752,000

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

Accrued interest	(1,661)	
Accreted interest on capital appreciation bonds	<u>(271,173)</u>	
Total		(272,834)

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

(33,042)

Change in net assets of governmental activities \$ (266,563)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 7,570,174	\$ 7,575,367	\$ 7,185,378	\$ (389,989)
Tuition	336,941	337,172	211,214	(125,958)
Transportation fees	36,834	36,859	40,688	3,829
Earnings on investments	526,963	527,324	224,850	(302,474)
Classroom materials and fees	37,469	37,495	39,120	1,625
Other local revenues	108,292	108,366	517,985	409,619
Other revenues	47,511	47,544	45,664	(1,880)
Intergovernmental - State	11,812,962	11,821,065	11,479,206	(341,859)
Total revenue	<u>20,477,146</u>	<u>20,491,192</u>	<u>19,744,105</u>	<u>(747,087)</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,779,731	10,034,351	10,251,208	(216,857)
Special	2,394,416	2,456,755	1,959,159	497,596
Vocational	225,858	231,738	223,984	7,754
Adult/continuing education	9,943	10,202	8,027	2,175
Other	151,577	155,523	154,682	841
Support services:				
Pupil	1,175,940	1,206,556	1,126,879	79,677
Instructional staff	1,115,756	1,144,805	1,115,385	29,420
Board of education	69,758	71,574	31,852	39,722
Administration	1,934,838	1,985,212	1,900,409	84,803
Fiscal	710,374	728,869	565,943	162,926
Operations and maintenance	2,312,461	2,372,667	2,228,301	144,366
Pupil transportation	1,002,487	1,028,587	922,579	106,008
Central	57,404	58,899	58,204	695
Operation of non-instructional services	60,273	61,842	47,153	14,689
Extracurricular activities	297,538	305,284	299,795	5,489
Facilities acquisition and construction	69,198	71,000	65,185	5,815
Debt service:				
Principal retirement	65,787	67,500	67,000	500
Interest and fiscal charges	6,726	6,901	4,106	2,795
Total expenditures	<u>21,440,065</u>	<u>21,998,265</u>	<u>21,029,851</u>	<u>968,414</u>
Excess of expenditures over revenues	<u>(962,919)</u>	<u>(1,507,073)</u>	<u>(1,285,746)</u>	<u>221,327</u>
Other financing sources (uses):				
Refund of prior year expenditure	8,703	8,709	43,932	35,223
Refund of prior years receipts	(161,581)	(165,788)	(164,376)	1,412
Transfers (out)	(161,411)	(165,613)	(138,613)	27,000
Advances in	64,669	64,713	67,443	2,730
Advances (out)	(75,310)	(77,271)	(78,944)	(1,673)
Sale of capital assets	19,753	19,767	17,986	(1,781)
Total other financing sources (uses)	<u>(305,177)</u>	<u>(315,483)</u>	<u>(252,572)</u>	<u>62,911</u>
Net change in fund balance	(1,268,096)	(1,822,556)	(1,538,318)	284,238
Fund balance at beginning of year	10,920,511	10,920,511	10,920,511	
Prior year encumbrances appropriated	817,128	817,128	817,128	
Fund balance at end of year	<u>\$ 10,469,543</u>	<u>\$ 9,915,083</u>	<u>\$ 10,199,321</u>	<u>\$ 284,238</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 94,970	\$ 30,411
Receivables:		
Accounts		285
Total assets.	94,970	\$ 30,696
Liabilities:		
Accounts payable.		\$ 543
Due to students		30,153
Total liabilities		\$ 30,696
Net assets:		
Held in trust for scholarships	94,970	
Total net assets	\$ 94,970	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 683
Total additions.	683
Deductions:	
Scholarships awarded	6,451
Change in net assets	(5,768)
Net assets at beginning of year	100,738
Net assets at end of year.	\$ 94,970

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District serves an area of approximately 32 square miles. It is located in Seneca County, but also encompasses portions of Hancock and Wood Counties and includes all of the City of Fostoria. The District is the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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 government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (the Plan) was established as an insurance purchasing pool. The Plan 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 Plan to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

Ohio School Plan

The District participates in the Ohio School Plan (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-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.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Center

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

Northwestern Ohio Educational Research Council, Inc.

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

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.

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 it participates 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.

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

The District's basic financial statements consist of government-wide financial statements which provide a more detailed level of financial information.

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

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

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

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

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

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

D. Basis of Accounting

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2009, are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

E. Budgets

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

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

The Certificate of Estimated Resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts reflect the amounts in the final amended certificate of estimated resources issued during fiscal year 2009.

4. Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. The appropriation resolution by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

7. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts on the statements of budgetary comparisons represent the final appropriation amounts passed by the Board during the year.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2009, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, U.S. Treasury bills and a U.S. government money market. Investments are reported at fair value, which is based on quoted market prices.

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, 2009.

Under existing Ohio statutes the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$235,244, which includes \$15,309 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.

G. Inventory

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

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

H. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with twenty or more years of current service with the District, or age forty-five with fifteen years of service, or age fifty with ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Reserves

The District reserves those portions of the fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, property tax advance unavailable for appropriation and school bus purchases. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under state statute.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the general fund include amounts required by state statute to be set-aside to create a reserve for school bus purchases. See Note 17 for details.

Q. Interfund Activity

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2009, included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Ohio reads	\$ 25,026
Title VI-B	35,405
Title I	46,017
Title VI-B	210
Preschool	11,738
Miscellaneous federal grants	27,682

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies 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;

**FOSTORIA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 circumstances, corporate debt interests rated 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.

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 Cash Equivalents".

B. Cash with Escrow Agent

At fiscal year end, the District had \$348,082 in cash with escrow agent to accumulate the required sinking fund deposits for the retirement of the Qualified Zone Academy Bonds (See Note 11.C. for detail). This amount is included on the financial statements as "Cash with Escrow Agent" and is included in investments below.

**FOSTORIA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$2,190,006. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$1,066,210 of the District's bank balance of \$1,662,897 was exposed to custodial risk as discussed below, while \$596,687 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. 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, 2009, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLM	\$ 3,318,375		\$ 300,870	\$ 3,017,505
FHLB	1,048,750			1,048,750
FNMA	731,569			731,569
U.S. Treasury bills	348,082	\$ 348,082		
U.S. Government money market	724,936	724,936		
STAR Ohio	5,407,556	5,407,556		
	<u>\$ 11,579,268</u>	<u>\$ 6,480,574</u>	<u>\$ 300,870</u>	<u>\$ 4,797,824</u>

The weighted average maturity of investments is 1.06 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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLM	\$ 3,318,375	28.65
FHLB	1,048,750	9.06
FNMA	731,569	6.32
U.S. Treasury bills	348,082	3.01
U.S. Government money market	724,936	6.26
STAR Ohio	5,407,556	46.70
Total	<u>\$ 11,579,268</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,190,006
Investments	11,579,268
Cash on hand	<u>5,075</u>
Total	<u>\$ 13,774,349</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 13,648,968
Private-purpose trust funds	94,970
Agency funds	<u>30,411</u>
Total	<u>\$ 13,774,349</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2009, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

**FOSTORIA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental	\$ 78,944

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2009, are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	\$ 138,613

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

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 tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or 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 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on January 1, 2008, were levied after April 1, 2008, and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represents the collection of calendar year 2009 taxes levied against local and inter-exchange 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 2009 were levied after October 1, 2008, on the value as of December 31, 2008. 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.

The District receives property taxes from Seneca, Hancock and Wood Counties. The County Auditors periodically advance to the Districts its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009, was \$821,896 in the general fund, \$69,091 in the bond retirement fund (a nonmajor governmental fund) and \$24,402 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008, was \$712,783 in the general fund, \$59,647 in the bond retirement fund (a nonmajor governmental fund) and \$21,423 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 264,497			\$ 264,497
Total capital assets, not being depreciated	<u>264,497</u>			<u>264,497</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,280,917	\$ 179,000		1,459,917
Buildings and improvements	20,396,917	16,000		20,412,917
Furniture and equipment	1,521,118		\$ (6,615)	1,514,503
Vehicles	1,338,162			1,338,162
Total capital assets, being depreciated	<u>24,537,114</u>	<u>195,000</u>	<u>(6,615)</u>	<u>24,725,499</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,063,899)	(34,267)		(1,098,166)
Buildings and improvements	(11,970,976)	(491,570)		(12,462,546)
Furniture and equipment	(1,383,406)	(27,603)	6,615	(1,404,394)
Vehicles	(809,747)	(83,632)		(893,379)
Total accumulated depreciation	<u>(15,228,028)</u>	<u>(637,072)</u>	<u>\$ 6,615</u>	<u>(15,858,485)</u>
Governmental activities capital assets, net	<u>\$ 9,573,583</u>	<u>\$ (442,072)</u>		<u>\$ 9,131,511</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 388,672
Special	19,037
Vocational	3,694
<u>Support services:</u>	
Pupil	2,441
Instructional staff	27,282
Administration	22,654
Fiscal	665
Operations and maintenance	33,844
Pupil transportation	86,174
Central	2,066
Extracurricular activities	8,252
Food service operations	42,291
Total depreciation expense	<u>\$ 637,072</u>

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 9 - CAPITAL LEASES

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

Assets consisting of software equipment under capital lease have not been capitalized in the statement of net assets because the software equipment individually is less than the District's capitalization threshold of \$5,000. A liability was recorded in the statement of net assets. Principal payments in fiscal year 2009 totaled \$67,000 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2009.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2010	\$ 79,697
2011	<u>75,854</u>
Total	155,551
Less: amount representing interest	<u>(12,551)</u>
Present value of minimum lease payments	<u>\$ 143,000</u>

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for teachers, classified employees and administrators and for secretaries/fiscal services personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for classified employees, secretaries/fiscal services personnel, teachers, certified employees, 62 days for administrators and 75 days for the superintendent.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</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	\$ 3,590,000		\$ (685,000)	\$ 2,905,000	\$ 715,000
Middle school refinancing, Capital appreciation bonds 15.45-15.50% (average effective) 12/01/10 to 12/01/13 maturity	413,505			413,505	
Middle school refinancing, Capital appreciation bonds Accreted interest	1,226,063	\$ 271,173		1,497,236	
QZAB - 0.50%	1,238,000			1,238,000	
Total bonds payable	<u>6,467,568</u>	<u>271,173</u>	<u>(685,000)</u>	<u>6,053,741</u>	<u>715,000</u>
<u>Other long-term obligations</u>					
Capital leases	210,000		(67,000)	143,000	70,000
Compensated absences payable	<u>1,323,066</u>	<u>92,001</u>	<u>(219,349)</u>	<u>1,195,718</u>	<u>66,254</u>
Total other long-term obligations	<u>1,533,066</u>	<u>92,001</u>	<u>(286,349)</u>	<u>1,338,718</u>	<u>136,254</u>
Total	<u>\$ 8,000,634</u>	<u>\$ 363,174</u>	<u>\$ (971,349)</u>	<u>\$ 7,392,459</u>	<u>\$ 851,254</u>

The capital lease obligation is detailed in Note 9.

Compensated absences will be paid from the fund from which the employee is paid which, for the District is primarily the general fund.

- 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. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as 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 15.45%), December 1, 2011 (effective interest 15.45%), December 1, 2012 (effective interest 15.50%) and December 1, 2013 (effective interest 15.50%) 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. A total of \$1,497,236 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2009.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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.

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
2010	\$ 715,000	\$118,124	\$ 833,124			
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 - 2017	2,190,000	152,047	2,342,047			
Total	\$2,905,000	\$681,891	\$3,586,891	\$413,505	\$2,566,495	\$ 2,980,000

- 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
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	
2015	110,423	
	\$ 993,807	\$ 331,269

The QZAB Series 2005 bonds required stated annual interest payments. During fiscal year 2009, 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 nonmajor governmental fund). On the statement of net assets, the resources accumulated in the sinking fund are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term. The required sinking fund deposits are expected to be sufficient to retire the QZAB Series 2005 bonds upon maturity.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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, 2009, are a voted debt margin of \$9,370,964, with an unvoted debt margin excluding energy conservation of \$140,994 and an unvoted debt margin related to energy conservation of \$30,947.

NOTE 12 - 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, 2008 and 2007 (the latest information available):

	2008	2007
Assets	\$ 3,273,989	\$ 2,646,185
Liabilities	1,873,157	1,621,941
Members' equity	1,400,832	1,024,244

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

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.

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.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley Uniserve, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the Plan.

NOTE 13 - 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*.

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 2009, 9.09 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, 2009, 2008 and 2007 were \$245,117, \$226,332 and \$242,165, respectively; 44.89 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 13 - PENSION PLANS - (Continued)

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.

Funding Policy - For fiscal year 2009, 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, 2009, 2008 and 2007 were \$1,223,174, \$1,143,028 and \$1,086,150, respectively; 82.38 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$12,867 made by the District and \$16,519 made by the plan members.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 13 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's contribution rate is 6.2 percent of wages paid.

NOTE 14 - 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS Ohio website at www.ohsers.org under *Employers/Audit Resources*.

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 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$163,794, \$152,646 and \$127,827, respectively; 44.89 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$20,224, \$16,308 and \$16,467, respectively; 44.89 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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.

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 2009, 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, 2009, 2008, and 2007 were \$94,090, \$87,925 and \$83,550, respectively; 82.38 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

	<u>General Fund</u>
Budget basis	\$ (1,538,318)
Net adjustment for revenue accruals	172,064
Net adjustment for expenditure accruals	(238,600)
Net adjustment for other sources/uses	113,959
Adjustment for encumbrances	513,410
GAAP basis	\$ (977,485)

NOTE 16 - 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 17 - 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, 2009, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2008	\$ (520,044)	
Current year set-aside requirement	312,090	\$ 312,090
Qualifying disbursements	(560,983)	(402,286)
Total	\$ (768,937)	\$ (90,196)
Balance carried forward to fiscal year 2010	\$ (768,937)	

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)

NOTE 17 - STATUTORY RESERVES – (Continued)

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.

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

A schedule of the restricted assets at June 30, 2009, follows:

Amount restricted for school bus purchases	<u>\$ 14,198</u>
--	------------------

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

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	\$36,699	\$36,699
<u>Nutrition Cluster:</u>			
National School Lunch Program			
NonCash Assistance (Food Distribution)	10.555	40,428	40,428
Cash Assistance		606,792	606,792
Total National School Lunch Program		647,220	647,220
Summer Food Service Program for Children	10.559	29,009	29,009
School Breakfast Program	10.553	166,591	166,591
Total Nutrition Cluster		842,820	842,820
Total U.S. Department of Agriculture		879,519	879,519
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>			
Adult Education - State Grant Program	84.002	103,771	104,807
Title I Grants to Local Educational Agencies	84.010	558,139	594,666
<u>Special Education Cluster:</u>			
Special Education - Grants to States	84.027	522,115	534,379
Special Education - Preschool Grants	84.173	49,287	53,849
Total Special Education Cluster		571,402	588,228
Safe and Drug Free Schools and Communities - State Grants	84.186	13,164	9,259
Education for Homeless Children and Youth	84.196	51,200	52,401
Twenty-First Century Community Learning Centers	84.287	300,000	258,891
State Grants for Innovative Programs	84.298	6,070	15,153
Education Technology State Grants	84.318	558	1,875
English Language Acquisition Grants	84.365	8,786	4,158
Improving Teacher Quality State Grants	84.367	269,711	225,608
School Improvement Grant	84.377	8,980	37,074

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR	Federal		
<i>Pass Through Grantor</i>	CFDA		
Program Title	Number	Receipts	Disbursements
<i>Direct Assistance</i>			
Teaching American History Grants	84.215X	83,314	112,835
Total U.S. Department of Education		1,975,095	2,004,955
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Hancock County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	2,669	2,982
<i>Passed Through Seneca County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	72,628	59,238
<i>Passed Through Wood County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	6,272	6,429
Total U. S. Department of Health and Human Services		81,569	68,649
Total Federal Awards Expenditures		\$2,936,183	\$2,953,123

The accompanying notes are an integral part of this schedule.

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Fostoria City School District's (the District's) federal award programs. 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.

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.

NOTE C - 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.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Fostoria City School District, Seneca County, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

We consider findings 2009-001 and 2009-002 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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

We also noted certain internal control matters that we reported to the District's management in a separate letter dated February 11, 2010.

Compliance and Other Matters

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

We did note a certain noncompliance matter that we reported to the District's management in a separate letter dated February 11, 2010.

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

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



Mary Taylor, CPA
Auditor of State

February 11, 2010



Mary Taylor, CPA

Auditor of State

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

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, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Fostoria City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

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

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

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

In a separate letter to the District's management dated February 11, 2010, we reported a matter related to federal internal control not requiring inclusion in this report.

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



Mary Taylor, CPA
Auditor of State

February 11, 2010

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	<p>Nutrition Cluster: School Breakfast Program CFDA # 10.553 National School Lunch Program CFDA #10.555 Summer Food Service Program for Children CFDA #10.559</p> <p>Special Education Cluster: Special Education – Grants to States CFDA # 84.027 Special Education – Preschool Grants CFDA # 84.173</p> <p>Title I Grants to Local Educational Agencies CFDA # 84.010</p>
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2009-001

Material Weakness

Bank Reconciliations

The following weaknesses were noted with the bank reconciliations:

1. The securities held by the District were not always entered correctly throughout the year which resulted in an adjustment of \$25,683;
2. Interest was not always posted in the month earned (at June 30, unposted interest totaled \$664);
3. The December 2008 and June 2009 payroll outstanding checklists contained checks issued in the following month (December's totaled \$68,305 and June's totaled \$51,980);
4. Throughout the year, undocumented adjustments were made to the General Fund as miscellaneous receipts in the following amounts:

<u>Date</u>	<u>Amount</u>	<u>Receipt #</u>
12/31/2008	\$ (68,305.00)	21058
1/31/2009	68,305.00	21173
4/30/2009	(25,683.08)	21621
5/26/2009	25,683.08	21719
5/29/2009	(25,683.20)	21799
6/10/2009	(25,683.20)	21963
6/19/2009	25,683.20	21962
6/30/2009	(25,683.20)	21974
Net adjustments	<u>\$ (51,366.40)</u>	

The net effect of the above adjustments resulted in an audit adjustment of \$51,366.

5. There were six receipts totaling \$5,593.18 in the General Fund miscellaneous line item noted as "Star Ohio deposit", with no description or source; and
6. As of December 31, 2009, the District is carrying a reconciling item in the amount of \$4,040 they can not account for.

Sound financial reporting is the responsibility of the Treasurer and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To improve controls over cash and help prevent errors to the financial statements, we recommend:

1. The Treasurer attend investment training on the securities held by the District to better understand how to record these types of investments;
2. Post all interest in the month earned;
3. Review outstanding checklists to make sure they only contain the outstanding checks pertaining to the period being reconciled;
4. Adjustments should be identified as such on the monthly reconciliation with an explanation as to why an adjustment was made;
5. All entries should include a description and source of the revenues; and
6. The District should investigate the origin of the reconciling item and eliminate the un-reconcilable amount as soon as possible.

In addition, we recommend the Treasurer perform monthly bank reconciliations in a timely manner consisting of all bank statements, investment balances, detail listings of all reconciling items (i.e. – outstanding checks and deposits in transit), and fund balances to help ensure the accuracy and completeness of the financial statements. The monthly bank reconciliations should be submitted to the Audit/Finance Committee for their monthly review and approval. The Audit/Finance Committee's review and approval of the reconciliations should be evidenced by signing the reconciliation and noting approval of the reconciliations in the audit/finance committee minutes.

These weaknesses resulted in additional audit time to test and verify the accuracy of the accompanying financial statements.

FINDING NUMBER 2009-002

Material Weakness

Financial Reporting

The review of the financial statements resulted in ten significant audit adjustments, including but not limited to the following:

- There were two real property rollback receipts totaling \$399,917 in the General Fund miscellaneous line item instead of the Intergovernmental line item.
- The taxes receivable estimated was understated by \$755,651 since the Certificate of Estimated Resources was not used.
- May Foundation Tangible Personal Property tax was distributed to the Debt Service and Permanent Improvement Funds but not to the General Fund. This resulted in an audit adjustment of \$376,553.
- Auxiliary Services Mobile Units receipt of \$24,636 was partially posted as a receipt to the General Fund (\$15,152) and partially as a reduction of expenditure to the Auxiliary Services Fund (\$9,484) instead of the total being receipted into the Auxiliary Services Fund as Intergovernmental revenues.

Sound financial reporting is the responsibility of the Treasurer 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, we recommend:

- The revenue report (REVLED) should be reviewed to ensure homestead and rollback revenues are properly receipted.
- The Certificate of Estimated Resources be used when calculating the taxes receivable.
- Foundation receipts be posted to the proper funds in the proper amounts.
- All revenues should be posted as receipts. A reduction of expenditure is appropriate when the District has overpaid and the overpayment is returned within the same year.

In addition, the District should adopt policies and procedures, including a final review of the IPA compilation report by the Treasurer and audit committee, to identify and correct errors and omissions. The Treasurer should also review the USAS manual's chart of accounts and update to ensure all accounts are being posted properly to the District's computer system (receipt and disbursements ledger) and properly reported in the financial statements. We also recommend the Treasurer meet with the IPA prior to the FY10 GAAP conversion to ensure an updated chart of accounts is being used and the prior audit adjustments have been addressed.

These weaknesses resulted in additional audit time to test and verify the accuracy of the accompanying financial statements.

Officials' Response:

Treasurer stated that care will be taken in the future to assure the above areas are corrected.

3. FINDINGS FOR FEDERAL AWARDS

None

**FOSTORIA CITY SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Material weakness over Federal grant reporting.	No	Partially corrected; repeated in the Management Letter.
2008-002	Material weakness over financial reporting.	No	Not corrected; repeated as Finding #2009-002 in this report.
2008-003	Material weakness over Federal grant reporting.	No	Partially corrected; repeated in the Management Letter.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Fostoria City School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on December 17, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;

- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 11, 2010



Mary Taylor, CPA
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
FEBRUARY 25, 2010