



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

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 general-purpose financial statements of the Fostoria City School District, Seneca County, Ohio (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidential matter supporting amounts reported as fixed assets of the Enterprise Fund Type and the General Fixed Assets Account Group.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain sufficient evidential matter supporting the amounts reported as fixed assets of the Enterprise Fund Type and General Fixed Assets Account Group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Fostoria City School District, Seneca County, as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust 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 26, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 26, 2003

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$1,082,214	\$379,185	\$938,022	\$278,695
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Receivables (net of allowances of uncollectibles):				
Property taxes - current and delinquent	6,696,542		648,570	288,027
Accounts	1,553			
Interfund loan receivable	65,100			
Due from other governments		284,434		
Materials and supplies inventory	9,062			
Prepayments	37,205			
Restricted assets:				
Equity in pooled cash and cash equivalents	112,155			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$8,003,831	\$663,619	\$1,586,592	\$566,722

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$21,164	\$26,904	\$113,498			\$2,839,682
		35,387			35,387
					7,633,139
					1,553
					65,100
12,649					284,434
					21,711
					37,205
					112,155
209,550			\$26,009,662		26,219,212
				\$988,366	988,366
				8,776,926	8,776,926
<u>\$243,363</u>	<u>\$26,904</u>	<u>\$148,885</u>	<u>\$26,009,662</u>	<u>\$9,765,292</u>	<u>\$47,014,870</u>

(Continued)

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$38,581	\$11,798		
Accrued wages and benefits	1,366,548	205,359		
Compensated absences payable	71,221			
Pension obligation payable	246,692	27,686		
Due to other governments	86,331	11,743		
Interfund loan payable		59,500		\$5,600
Deferred revenue	6,165,536	284,434	\$598,226	257,339
Due to students				
General obligation bonds payable				
Loans payable				
Capital lease obligation				
Total liabilities	7,974,909	600,520	598,226	262,939
Equity and other credits:				
Investment in general fixed assets				
Retained earnings: unreserved				
Fund balances:				
Reserved for encumbrances	652,983	57,692		87,687
Reserved for materials and supplies inventory	9,062			
Reserved for prepayments	37,205			
Reserved for debt service			938,022	
Reserved for tax revenue unavailable for appropriation	531,006		50,344	30,688
Reserved for principal endowment				
Reserved for Budget Stabilization	89,109			
Reserved for textbooks	23,046			
Unreserved-undesignated	(1,313,489)	5,407		185,408
Total equity and other credits	28,922	63,099	988,366	303,783
Total liabilities, equity and other credits	\$8,003,831	\$663,619	\$1,586,592	\$566,722

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$1,000					\$51,379
19,537					1,591,444
24,328				\$1,018,980	1,114,529
8,776				140,836	423,990
2,018					100,092
10,096					65,100
		\$43,699			7,315,631
					43,699
				7,656,505	7,656,505
				495,971	495,971
				453,000	453,000
65,755		43,699		9,765,292	19,311,340
177,608	\$26,904		\$26,009,662		26,009,662
					204,512
					798,362
					9,062
					37,205
					938,022
					612,038
		35,387			35,387
					89,109
					23,046
		69,799			(1,052,875)
177,608	26,904	105,186	26,009,662		27,703,530
\$243,363	\$26,904	\$148,885	\$26,009,662	\$9,765,292	\$47,014,870

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
From local sources:		
Taxes	\$6,459,882	
Tuition	10,768	\$41,417
Earnings on investments	130,359	1,638
Extracurricular		180,566
Gifts and donations	24,567	33,479
Other local revenues	143,145	13,574
Other revenue	18,010	
Intergovernmental - State	9,109,509	1,082,469
Intergovernmental - Federal	90,632	944,682
Total revenue	<u>15,986,872</u>	<u>2,297,825</u>
Expenditures:		
Current:		
Instruction:		
Regular	6,756,596	609,346
Special	1,681,847	736,224
Vocational	127,387	
Other	553,194	60,864
Support services:		
Pupil	913,760	184,211
Instructional staff	663,781	405,169
Board of Education	17,688	
Administration	1,617,157	112,599
Fiscal	414,767	1,777
Business	171,718	1,000
Operations and maintenance	1,746,530	10,375
Pupil transportation	432,453	16,847
Central	115,422	56,302
Community services	15,053	113,594
Extracurricular activities	345,270	106,533
Facilities acquisition and construction	31,620	4,263
Intergovernmental pass-through		320,818
Debt service:		
Principal retirement	110,718	
Interest and fiscal charges	85,669	
Total expenditures	<u>15,800,630</u>	<u>2,739,922</u>
Excess of revenues over (under) expenditures	<u>186,242</u>	<u>(442,097)</u>
Other financing sources (uses):		
Operating transfers in		
Operating transfers out	(73,377)	
Proceeds from sale of fixed assets	1,275	
Total other financing sources (uses)	<u>(72,102)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	114,140	(442,097)
Fund balances (deficit), July 1	(63,519)	505,196
Decrease in reserve for inventory	(21,699)	
Fund balances, June 30	<u>\$28,922</u>	<u>\$63,099</u>

The notes to the general-purpose financial statements are an integral part of this statement.

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$771,128	\$284,817		\$7,515,827
			52,185
	1,474	\$2,208	135,679
			180,566
		25	58,071
			156,719
			18,010
93,346	106,195		10,391,519
			1,035,314
<u>864,474</u>	<u>392,486</u>	<u>2,233</u>	<u>19,543,890</u>
	9,329		7,375,271
			2,418,071
			127,387
			614,058
			1,097,971
	15,324		1,084,274
			17,688
			1,729,756
18,209	6,310		441,063
			172,718
	4,626		1,761,531
			449,300
			171,724
			128,647
		4,000	455,803
	215,365		251,248
			320,818
542,000			652,718
<u>319,408</u>			<u>405,077</u>
<u>879,617</u>	<u>250,954</u>	<u>4,000</u>	<u>19,675,123</u>
<u>(15,143)</u>	<u>141,532</u>	<u>(1,767)</u>	<u>(131,233)</u>
89,198	2,620		91,818
	(18,441)		(91,818)
	12,683		13,958
<u>89,198</u>	<u>(3,138)</u>		<u>13,958</u>
74,055	138,394	(1,767)	(117,275)
914,311	165,389	71,566	1,592,943
			(21,699)
<u>\$988,366</u>	<u>\$303,783</u>	<u>\$69,799</u>	<u>\$1,453,969</u>

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$6,696,426	\$6,717,738	\$21,312
Tuition	20,000	11,068	(8,932)
Earnings on investments	161,500	130,359	(31,141)
Extracurricular			
Gifts and donations	50,000	24,567	(25,433)
Other local revenues	196,000	142,273	(53,727)
Other revenue	19,000	18,010	(990)
Intergovernmental - State	8,844,154	9,109,509	265,355
Intergovernmental - Federal	65,000	90,632	25,632
Total revenues	<u>16,052,080</u>	<u>16,244,156</u>	<u>192,076</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,952,871	6,942,146	10,725
Special	1,645,640	1,784,647	(139,007)
Vocational	176,890	128,941	47,949
Other	581,743	633,631	(51,888)
Support services:			
Pupil	1,005,908	940,739	65,169
Instructional staff	697,730	685,668	12,062
Board of Education	19,994	18,803	1,191
Administration	1,655,423	1,607,295	48,128
Fiscal	398,226	435,156	(36,930)
Business	281,310	192,726	88,584
Operations and maintenance	1,943,849	1,795,317	148,532
Pupil transportation	470,395	471,642	(1,247)
Central	134,643	117,682	16,961
Community services	42,311	15,082	27,229
Extracurricular activities	371,642	348,245	23,397
Facilities acquisition and construction	52,540	31,619	20,921
Intergovernmental pass-through			
Debt service:			
Principal retirement	1,211,718	1,211,718	
Interest and fiscal charges	48,417	243,130	(194,713)
Total expenditures	<u>17,691,250</u>	<u>17,604,187</u>	<u>87,063</u>
Excess of revenues over (under) expenditures	<u>(1,639,170)</u>	<u>(1,360,031)</u>	<u>279,139</u>
Other financing sources (uses):			
Advances in	116,144	66,400	(49,744)
Advances out	(70,000)	(182,302)	(112,302)
Operating transfers in		108,925	108,925
Operating transfers out	(107,147)	(58,500)	48,647
Proceeds of note	1,101,000	1,101,000	
Proceeds from sale of fixed assets	500	1,275	775
Refund of prior year receipts			
Refund of prior year expenditures	3,100	26,179	23,079
Total other financing sources (uses)	<u>1,043,597</u>	<u>1,062,977</u>	<u>19,380</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(595,573)</u>	<u>(297,054)</u>	<u>298,519</u>
Fund balances, July 1	536,515	536,515	
Prior year encumbrances appropriated	267,177	267,177	
Fund balances, June 30	<u>\$208,119</u>	<u>\$506,638</u>	<u>\$298,519</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$948,094	\$838,869	(\$109,225)
\$38,900	\$41,416	\$2,516			
5,740	1,638	(4,102)			
141,700	180,566	38,866			
60,486	33,479	(27,007)			
22,650	13,623	(9,027)			
1,050,377	1,084,724	34,347	82,000	93,346	11,346
1,187,459	1,094,694	(92,765)			
2,507,312	2,450,140	(57,172)	1,030,094	932,215	(97,879)
684,454	591,685	92,769			
772,512	708,606	63,906			
52,793	61,203	(8,410)			
174,893	190,785	(15,892)			
412,927	420,588	(7,661)			
129,629	118,515	11,114			
7,604	1,777	5,827	21,000	20,224	776
1,000	1,000				
11,149	10,375	774			
17,067	16,847	220			
66,909	59,967	6,942			
133,309	111,141	22,168			
130,148	121,156	8,992			
3,500	4,263	(763)			
344,167	325,597	18,570			
			542,000	542,000	
			319,408	319,408	
2,942,061	2,743,505	198,556	882,408	881,632	776
(434,749)	(293,365)	141,384	147,686	50,583	(97,103)
	58,500	58,500			
(16,002)	(16,000)	2			
22,800	18,374	(4,426)		89,198	89,198
(11,000)	(18,374)	(7,374)			
(4,202)	42,500	46,702		89,198	89,198
(438,951)	(250,865)	188,086	147,686	139,781	(7,905)
412,415	412,415		798,241	798,241	
152,149	152,149				
\$125,613	\$313,699	\$188,086	\$945,927	\$938,022	(\$7,905)

(Continued)

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$302,979	\$291,856	(\$11,123)
Tuition			
Earnings on investments			
Extracurricular			
Gifts and donations			
Other local revenues	1,500	1,474	(26)
Other revenue			
Intergovernmental - State	103,340	106,195	2,855
Intergovernmental - Federal			
Total revenues	<u>407,819</u>	<u>399,525</u>	<u>(8,294)</u>
Expenditures:			
Current:			
Instruction:			
Regular	13,220	12,814	406
Special			
Vocational			
Other			
Support services:			
Pupil			
Instructional staff	90,581	90,563	18
Board of Education			
Administration			
Fiscal	8,500	7,021	1,479
Business			
Operations and maintenance	10,900	4,627	6,273
Pupil transportation			
Central			
Community services			
Extracurricular activities			
Facilities acquisition and construction	258,330	229,811	28,519
Intergovernmental pass-through			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>381,531</u>	<u>344,836</u>	<u>36,695</u>
Excess of revenues over (under) expenditures	<u>26,288</u>	<u>54,689</u>	<u>28,401</u>
Other financing sources (uses):			
Advances in			
Advances out	(50,400)	(50,400)	
Operating transfers in		2,620	2,620
Operating transfers out		(18,441)	(18,441)
Proceeds of note			
Proceeds from sale of fixed assets	10,000	12,683	2,683
Refund of prior year receipts			
Refund of prior year expenditures			
Total other financing sources (uses)	<u>(40,400)</u>	<u>(53,538)</u>	<u>(13,138)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(14,112)	1,151	15,263
Fund balances, July 1	180,607	180,607	
Prior year encumbrances appropriated	9,250	9,250	
Fund balances, June 30	<u>\$175,745</u>	<u>\$191,008</u>	<u>\$15,263</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$7,947,499	\$7,848,463	(\$99,036)
58,900	52,484	(6,416)
167,240	131,997	(35,243)
141,700	180,566	38,866
110,486	58,046	(52,440)
220,150	157,370	(62,780)
19,000	18,010	(990)
10,079,871	10,393,774	313,903
1,252,459	1,185,326	(67,133)
19,997,305	20,026,036	28,731
7,650,545	7,546,645	103,900
2,418,152	2,493,253	(75,101)
176,890	128,941	47,949
634,536	694,834	(60,298)
1,180,801	1,131,524	49,277
1,201,238	1,196,819	4,419
19,994	18,803	1,191
1,785,052	1,725,810	59,242
435,330	464,178	(28,848)
282,310	193,726	88,584
1,965,898	1,810,319	155,579
487,462	488,489	(1,027)
201,552	177,649	23,903
175,620	126,223	49,397
501,790	469,401	32,389
314,370	265,693	48,677
344,167	325,597	18,570
1,753,718	1,753,718	
367,825	562,538	(194,713)
21,897,250	21,574,160	323,090
(1,899,945)	(1,548,124)	351,821
116,144	124,900	8,756
(136,402)	(248,702)	(112,300)
22,800	219,117	196,317
(118,147)	(95,315)	22,832
1,101,000	1,101,000	
10,500	13,958	3,458
3,100	26,179	23,079
998,995	1,141,137	142,142
(900,950)	(406,987)	493,963
1,927,778	1,927,778	
428,576	428,576	
\$1,455,404	\$1,949,367	\$493,963

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

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$2,477			\$2,477
Sales/charges for services	337,669			337,669
Investment earnings			\$565	565
Total operating revenues	<u>340,146</u>		<u>565</u>	<u>340,711</u>
Operating expenses:				
Personal services	422,569			422,569
Contract services	9,234			9,234
Materials and supplies	351,522			351,522
Depreciation	16,063			16,063
Other			2,500	2,500
Total operating expenses	<u>799,388</u>		<u>2,500</u>	<u>801,888</u>
Operating loss	<u>(459,242)</u>		<u>(1,935)</u>	<u>(461,177)</u>
Nonoperating revenues:				
Operating grants	388,820			388,820
Interest revenue		\$281		281
Federal commodities	55,158			55,158
Total nonoperating revenues	<u>443,978</u>	<u>281</u>		<u>444,259</u>
Net income (loss) before capital contributions	(15,264)	281	(1,935)	(16,918)
Capital contributions	12,560			12,560
Net income (loss)	(2,704)	281	(1,935)	(4,358)
Retained earnings/fund balance, July 1	180,312	26,623	37,322	244,257
Retained earnings/fund balance, June 30	<u><u>\$177,608</u></u>	<u><u>\$26,904</u></u>	<u><u>\$35,387</u></u>	<u><u>\$239,899</u></u>

The notes to the general-purpose financial statements are an integral part of this statement.

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:				
Cash received from tuition and fees	\$2,477			\$2,477
Cash received from sales/service charges	337,669			337,669
Cash payments for personal services	(409,165)			(409,165)
Cash payments for contract services	(9,234)			(9,234)
Cash payments for materials and supplies	(296,539)			(296,539)
Cash payments for other expenses			(\$2,500)	(2,500)
Net cash used in operating activities	<u>(374,792)</u>		<u>(2,500)</u>	<u>(377,292)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	388,820			388,820
Net cash provided by noncapital financing activities	<u>388,820</u>			<u>388,820</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(500)			(500)
Net cash used in capital and related financing activities	<u>(500)</u>			<u>(500)</u>
Cash flows from investing activities:				
Interest received		\$281	565	846
Net cash provided by investing activities		<u>281</u>	<u>565</u>	<u>846</u>
Net increase (decrease) in cash and cash equivalents	13,528	281	(1,935)	11,874
Cash and cash equivalents at beginning of year	7,636	26,623	37,322	71,581
Cash and cash equivalents at end of year	<u>\$21,164</u>	<u>\$26,904</u>	<u>\$35,387</u>	<u>\$83,455</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	(459,242)		(1,935)	(461,177)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	16,063			16,063
Federal donated commodities	55,158			55,158
Interest reported as operating income			(565)	(565)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(1,921)			(1,921)
Increase in accrued wages and benefits	3,004			3,004
Increase in compensated absences payable	9,559			9,559
Decrease in pension obligation payable	(1,177)			(1,177)
Increase in due to other governments	2,018			2,018
Increase in deferred revenue	1,746			1,746
Net cash used in operating activities	<u>(\$374,792)</u>		<u>(\$2,500)</u>	<u>(\$377,292)</u>

The notes to the general-purpose financial statements are an integral part of this statement.

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

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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 217th largest in the State of Ohio (among 705 public and community school districts) in terms of enrollment. It is staffed by 145 non-certificated employees and 218 certificated full-time teaching personnel who provide services to 2,389 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 general purpose financial statements (GPFS) 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (Association)

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts - Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association. Refer to Note 12 for further information on this public entity risk pool.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 13.C. for further information on this group rating plan.

Ohio School Plan

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

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.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Vanguard-Sentinel Career Centers

The Vanguard-Sentinel Career Centers (The Centers) are a distinct political subdivision of the State of Ohio which provides vocational education to students. The Centers are operated under the direction of a Board consisting of one representative from the Seneca East Local 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 Centers are its own budgeting and taxing authority. Financial information can be obtained from Jay Valasek, Vanguard-Sentinel Career Centers, 1306 Cedar Street, Fremont, Ohio 43420.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust, nonexpendable trust and an agency fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for on the budgetary basis. The agency fund had no material accruals which, in other fund types, would be recognized on the combined balance sheet.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary and non expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

The modified accrual basis of accounting is followed for all governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary and nonexpendable trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2002 is as follows:

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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 taxpayers' comments. The expressed 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 is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, 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. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. 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. Resolution appropriations 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 total.
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 consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
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 of expenditures.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for proprietary fund types at fiscal year end and Note 14 discloses the encumbrances outstanding for the enterprise funds.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During fiscal year 2002, investments were limited to STAR Ohio and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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 share price, which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$130,359, of which \$79,141 was assigned to other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 Treasurer's investment account at year end is provided in Note 4.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. 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 expendable resources even through it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

G. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise funds are capitalized in the respective funds. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair value as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not have any infrastructure.

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. Improvements are capitalized. Improvements to the enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of eight to twenty years.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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.

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. A liability for severance 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 severance 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 with the District 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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, debt service, tax revenue unavailable for appropriation, principal endowment, budget stabilization and textbooks. Although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of principal endowment. 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 property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2002.

An analysis of interfund transactions is presented in Note 5.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 19 for details.

N. Estimates

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

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2002 included the following fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Fund</u>	
Education Management Information System	\$22
Adult Basic Education	5,368
Title VI-B	46,519
Title I	99,104
Title VI	5,704
Preschool	4,239
Class Size Reduction	28,809
Miscellaneous	4
 <u>Capital Projects Fund</u>	
Disability Access Grant	5,600

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end.

The deficit fund balances in the Education Management, Adult Basic Education, Title VI-B, Title I, Class Size Reduction and Miscellaneous Federal Grants special revenue funds are caused by accruing wage, benefit and retirement obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit fund balances in the Title VI, Preschool special revenue funds and the Disability Access Grant capital projects fund are a result of the application of GAAP, namely in the recognition of an interfund loan as a fund liability, rather than as an "other financing source." These deficits will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

B. Compliance

Contrary to Ohio Law, the District did not obtain an increase/reduced amended certificate of estimated resources for the Title I and District Managed funds as of March 31, 2002.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two 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 accounts, including passbook accounts.

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.

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on hand: At fiscal year end, the District had \$150 in undeposited cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year end, the carrying amount of the District's deposits was \$(350,039) and the bank balance was \$188,575. Of the bank balance:

1. \$183,547 was covered by federal depository insurance; and
2. \$5,028 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	\$158,343	\$158,343	\$158,343
Investment in STAR Ohio		3,178,770	3,178,770
Total investments		\$3,337,113	\$3,337,113

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet and the classifications of deposits and investments per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,987,224	
Cash on hand	(150)	
Investments of the cash management pool:		
Repurchase agreement	(158,343)	\$158,343
Investments in STAR Ohio	(3,178,770)	3,178,770
GASB Statement No. 3	(\$350,039)	\$3,337,113

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's operating transfers for fiscal year 2002:

	Transfers In	Transfers Out
General Fund		\$73,377
Debt Service Fund	\$89,198	
Permanent Improvement	2,620	18,441
Totals	\$91,818	\$91,818

B. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

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(Continued)

	Interfund Receivable	Interfund Payable
General Fund	\$65,100	
Special Revenue Funds		
Athletic		\$1,000
Adult Basic Education		2,900
Title V-I		28,000
Title I		4,800
Title VI		6,800
Preschool		8,000
Class Size Reduction		8,000
Total Special Revenue Funds		59,500
Capital Project Fund		
Making Schools Work		5,600
Totals	\$65,100	\$65,100

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was \$216,175,423. Agricultural/Residential and public utility real estate represented 50.44% or \$108,855,740 of this total; Commercial and industrial real estate represented 19.41% or \$42,131,710 of this total, public utility tangible represented 4.10% or \$8,867,490 of this total and general tangible property represented 26.05% or \$56,320,483 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$46.25 per \$1,000.00 of assessed valuation for operations, \$3.40 per \$1,000 of assessed valuation for debt service and \$1.73 per \$1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Seneca, Hancock and Wood County Treasurers collect property tax on behalf of the District and periodically remit, to the District, its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

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Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amounts available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$612,038 available to the District as an advance at June 30, and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to fiscal year end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

A summary of the principal items of receivables follows:

	Amounts
<u>General Fund</u>	
Taxes - current and delinquent	\$6,696,542
Accounts	1,553
Interfund loan	65,100
<u>Special Revenue Funds</u>	
Due from other governments	284,434
<u>Debt Service Fund</u>	
Taxes - current and delinquent	648,570
<u>Capital Projects Funds</u>	
Taxes - current and delinquent	288,027

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	Balance 7/1/01	Increase	Decrease	Balance 6/30/02
Land/buildings	\$20,753,679	\$104,000	(\$859,565)	\$19,998,114
Furniture and equipment	4,657,889	261,470		4,919,359
Vehicles	1,092,189			1,092,189
Total	\$26,503,757	\$365,470	(\$859,565)	\$26,009,662

There was no significant construction in progress.

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A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$508,473
Less: accumulated depreciation	<u>(298,923)</u>
Net fixed assets	<u><u>\$209,550</u></u>

NOTE 9 - CAPITAL LEASES

The District has entered into a capitalized lease for software and certain equipment. These leases meet 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 combined general purpose financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$453,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. The District is not required to make the principal payment of \$453,000 on the software equipment until fiscal year 2004. Interest payments in fiscal year 2002 totaled \$18,539 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, 2002.

Fiscal Year Ending June 30,	Amount
2003	\$19,000
2004	<u>462,500</u>
Total	481,500
Less: amount representing interest	<u>(28,500)</u>
Present value of minimum lease payments	<u><u>\$453,000</u></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 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 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and certified employees and up to a maximum 60 days for administrators.

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(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligations will be paid from the fund in which the employee was paid.

	Interest Rate	Balance at 7/1/01	Additions	Disposals	Balance at 6/30/02
Middle school refinancing bonds	4.46%	\$8,033,505		(\$490,000)	\$7,543,505
School bus bonds	5.50%	110,000		(25,000)	85,000
School bus bonds	5.00%	55,000		(27,000)	28,000
Total general obligation bonds payable		<u>8,198,505</u>		<u>(542,000)</u>	<u>7,656,505</u>
HB 264 lighting loan	4.80%	199,776		(28,540)	171,236
Energy conservation loan	5.50%	406,913		(82,178)	324,735
Total loans payable		<u>606,689</u>		<u>(110,718)</u>	<u>495,971</u>
Capital leases		453,000			453,000
Pension obligation payable		177,626	\$140,836	(177,626)	140,836
Compensated absences payable		<u>1,055,558</u>	<u>80,807</u>	<u>(117,385)</u>	<u>1,018,980</u>
Total other long-term obligations		<u>1,686,184</u>	<u>221,643</u>	<u>(295,011)</u>	<u>1,612,816</u>
Total		<u>\$10,491,378</u>	<u>\$221,643</u>	<u>(\$947,729)</u>	<u>\$9,765,292</u>

Middle School Refinancing Bonds - On April 1, 1992, the District issued bonds for an addition and improvement to the middle school building. The bonds were issued for a twenty-five year period with final maturity at December 1, 2017. The bonds will be retired from the debt service fund.

School Bus Bonds - On June 30, 1998, the District issued bonds in the amount of \$129,000 for the purpose of purchasing school buses for the District. The bonds were issued for a six-year period with final maturity during fiscal year 2003. The bonds will be retired from the debt service fund.

School Bus Bonds - On June 1, 2000, the District issued bonds in the amount of \$134,000 for the purpose of paying part of the costs of acquiring school buses, including financing charges in connection with the Ohio School Districts 2000 Bus Borrowing Program. The issuance of such bonds is pursuant to Chapter 133 of the Ohio Revised Code and Section 3327.08. The bonds were issued for a five-year period with final maturity on April 15, 2005. The bonds will be retired from the general fund.

HB 264 Lighting - On August 21, 1998, the District obtained a loan in the amount of \$285,394 for the purpose of lighting for the District. The loan was issued for a ten-year period with final maturity during fiscal year 2008. The loan will be retired from the debt service fund.

Energy Conservation Loan - On May 15, 1997, the District issued \$806,995 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code §133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2006. The loan will be retired from the general fund.

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Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2002, are as follows:

Fiscal Year Ending June 30:	Principal	Interest	Total
2003	\$668,301	\$332,744	\$1,001,045
2004	710,139	305,213	1,015,352
2005	740,247	275,746	1,015,993
2006	678,205	244,341	922,546
2007	663,539	217,605	881,144
2008 - 2012	2,326,507	1,943,815	4,270,322
2013 - 2017	2,365,538	1,723,833	4,089,371
Total	<u>\$8,152,476</u>	<u>\$5,043,297</u>	<u>\$13,195,773</u>

B. 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 effects of these debt limitations at June 30, 2002 are a voted debt margin of \$12,787,649 (including available funds of \$988,366) and an unvoted debt margin of \$216,175.

NOTE 12 - NOTE ACTIVITY

During fiscal year 2002, the District issued and retired a \$1,101,000 tax revenue anticipation note for the purpose of paying current expenses. The note was a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The proceeds of the note were received in the general fund, the fund which subsequently retired the note.

The following is a description of the note activity during fiscal 2002:

	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/01	Issued in 2002	Retired in 2002	Balance at 6/30/02
Tax revenue anticipation note	7/2/2001	6/28/2002	3.31%	<u> </u>	<u>\$1,101,000</u>	<u>(\$1,101,000)</u>	<u> </u>

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District contracted for the following insurance coverage:

Coverage provided by Ohio School Plan	
General Liability	
General Aggregate	\$3,000,000
Employee Benefit Liability	
Each Offence Limit	1,000,000
Aggregate	3,000,000

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Employees' Liability and Stop Gap Liability	1,000,000
Educational Legal Aggregate	2,000,000
Auto Coverage Liability	1,000,000
Liability	2,000,000

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

For fiscal year 2002, the District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees 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 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. The medical plan is administered by Unicare. The total monthly premium for medical is \$327.71 for single coverage and \$715.46 for family coverage. The District's portion of the monthly premium is \$294.94 for single coverage and \$643.91 for family coverage, which is paid out of the same fund that pays the salary for the employees. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$32.77 for single coverage and \$71.55 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 \$47.42 for single and \$47.42 for family coverage. This premium includes the employee portion, which is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised, except through negotiated agreement.

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

C. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	Food Service	Adult Education	Total
Operating revenue	\$337,669	\$2,477	\$340,146
Operating expenses			
before depreciation	781,189	2,136	783,325
Depreciation	16,063		16,063
Operating income/(loss)	(459,583)	341	(459,242)
Operating grants	388,820		388,820
Federal donated commodities	55,158		55,158
Net income/(loss)	(3,045)	341	(2,704)
Net working capital	(9,015)	1,401	(7,614)
Total assets	241,939	1,424	243,363
Total liabilities	65,732	23	65,755
Total equity	176,207	1,401	177,608
Encumbrances	7,775		7,775

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

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Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2002; 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$439,098, \$462,305, and \$409,311, respectively; 60.18 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$174,840, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,398,931, \$1,311,506, and \$1,206,414, respectively; 84.51 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$216,680, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by STRS or SERS have an option to choose Social Security or STRS/SERS. As of June 30, 2002, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 16 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$449,656 during fiscal 2002.

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STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$302,353 during the 2002 fiscal year.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
Budget basis	(\$297,054)	(\$250,865)	\$139,781	\$1,151
Net adjustment for revenue accruals	(257,284)	(152,315)	(67,741)	(7,039)
Net adjustment for expenditure accruals	1,115,826	(61,903)	2,015	6,195
Net adjustment for other financing sources/(uses)	(1,135,079)	(42,500)		50,400
Encumbrances (budget basis)	687,731	65,486		87,687
GAAP basis	\$114,140	(\$442,097)	\$74,055	\$138,394

NOTE 18 - 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 19 - 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, 2002, the reserve activity was as follows:

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of June 30, 2001	(\$22,852)		\$89,109
Current year set-aside requirement	293,835	\$293,835	
Qualifying disbursements	(247,937)	(308,554)	
Total	\$23,046	(\$14,719)	\$89,109
Cash balance carried forward to FY 2003	\$23,046		\$89,109

Monies representing budget stabilization and textbooks have been shown as restricted assets and reserved fund balances in the general fund since allowable expenditures are restricted by state statute.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for budget stabilization	\$89,109
Amount restricted for textbooks	23,046
Total restricted assets	\$112,155

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

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program		10.550
National School Lunch Program	043992-LLP1-2002 043992-LLP4-2001 043992-LLP4-2002	10.555
Total National School Lunch Program		
National School Breakfast Program	043992-05PU-2001 043992-05PU-2002	10.553
Total National School Breakfast Program		
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	043992-6BEC-2001-P 043992-6BSF-2001-P 043992-6BSF-2002-P	84.027
Total Special Education Grants to States (IDEA Part B)		
Special Education - Preschool Grant	043992-PGS1-2001 043992-PGS1-2002-P 043992-PGSC-2002-P	84.173
Total Special Education-Preschool Grant		
Total Special Education Cluster		
Adult Education- State Grant Program	043992-ABS1-2001-C 043992-ABS1-2002	84.002
Total Adult Education-State Grant Program		
Grants to Local Educational Agencies (ESEA Title I)	043992-C1S1-2000 043992-C1S1-2001 043992-C1S1-2001-C 043992-C1S1-2002	84.010

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$48,616		\$48,616
\$535		\$535	
40,895		40,895	
264,264		264,264	
<u>305,694</u>		<u>305,694</u>	
7,255		7,255	
51,974		51,974	
<u>59,229</u>		<u>59,229</u>	
<u>364,923</u>	<u>48,616</u>	<u>364,923</u>	<u>48,616</u>
4,033		3,997	
30,911		40,966	
228,831		254,471	
<u>263,775</u>		<u>299,434</u>	
31,606		4,441	
4,000		33,361	
<u>35,606</u>		<u>37,802</u>	
<u>299,381</u>		<u>337,236</u>	
36,882		6,204	
<u>36,882</u>		<u>71,774</u>	
		<u>77,978</u>	
28,575		14,517	
79,324		77,941	
526,468		79,324	
<u>634,367</u>		<u>529,151</u>	
		<u>700,933</u>	

(Continued)

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

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
Innovative Educational Program Strategies	043992-C2S1-2000 043992-C2S1-2001 043992-C2S1-2002	84.298
Total Innovative Educational Program Strategies		
Dwight D. Eisenhower Proficiency Development State Grant	043992-MSS1-2001 043992-MSS1-2002	84.281
Total Dwight D. Eisenhower Proficiency Development State Grant		
Drug-Free Schools Grant	043992-DRS1-2001 043992-DRS1-2002	84.186
Total Drug-Free Schools Grant		
Comprehensive School Reform Demonstration Grant	043992-RFS1-2001	84.332
Goals 2000	043992-G2S2-2000 043992-G2S2-2001 043992-G2SP-2001	84.276
Total Goals 2000		
Class Size Reduction	043992-CRS1-2001 043992-CRS1-2002	84.340
Total Class Size Reduction		
Assistant Tech Infusion Project	043992-ATS1-2002	84.352
Technology Literacy Challenge Fund Grants	043992-TFVL-2000	84.318
Total Department of Education		
U.S. DEPARTMENT OF LABOR		
<i>Passed Through Ohio Department of Education:</i>		
Employment Services and Job Training Pilot and Demonstration Programs (School to Work)	043992-WKBE-2000 043992-WKBE-2001	17.249
Total Department of Labor		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Education:</i>		
Medical Assistance Program (Medicaid)		93.778
Totals		

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
		1,189	
		9,435	
4,593		10,282	
<u>4,593</u>		<u>20,906</u>	
1,320		8,782	
15,560		150	
<u>16,880</u>		<u>8,932</u>	
		57	
5,152		99	
<u>5,152</u>		<u>156</u>	
63,816		60,209	
		10,169	
		12,714	
3,000			
<u>3,000</u>		<u>22,883</u>	
13,456		21,634	
92,264		100,211	
<u>105,720</u>		<u>121,845</u>	
600		600	
9,000		9,000	
<u>1,179,391</u>		<u>1,360,678</u>	
		31,752	
16,000		12,347	
<u>16,000</u>		<u>44,099</u>	
90,632		90,632	
<u>\$1,650,946</u>	<u>\$48,616</u>	<u>\$1,860,332</u>	<u>\$48,616</u>

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
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 Fostoria City School District, Seneca County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 26, 2003 which was qualified for our inability to obtain sufficient evidential matter supporting the fixed assets of the Enterprise Fund Type and the General Fixed Assets Account Group. Except as discussed in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2002-10574-001 and 2002-10574-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 26, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-10574-003 and 2002-10574-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-10574-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 26, 2003.

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



Betty Montgomery
Auditor of State

February 26, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND 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 are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the District in a separate letter dated February 26, 2003.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

February 26, 2003

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I – CFDA # 84.010 Class Size Reduction – CFDA # 84.340
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2002-10574-001

Finding for Recovery

Fund raisers from student activities managed by several advisors were found to have discrepancies in the final account of funds raised as follows:

**FINDING NUMBER 2002-10574-001
 (Continued)**

<u>Advisor Name</u>	<u>Activity</u>	<u>Per Books Activity</u>	<u>Per Audit</u>	<u>Finding Amount</u>
Kerri Pullins	Sweatshirts	\$2,630	\$3,437	\$807
Kerri Pullins	Candy	291	972	681
Kerri Pullins	Junior Prom	1,994	2,020	26
Beth Hommel	T-shirts	104	180	76
Beth Hommel	Suckers	712	780	68
Vickie Echelbarger	Candy	993	1,040	47
John Walker	T-shirts	1,024	1,171	147
John Walker	Cookies	1,518	1,840	322
Total		\$9,266	\$11,440	\$2,174

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money that is due and not collected is hereby issued against Jane Fruth, Treasurer and the above listed advisors, jointly and severally, in the amount of two thousand one hundred and seventy-four dollars and zero cents (\$2,174) and in favor of the Students Activities Fund.

Advisor John Walker paid the District \$469 on March 17, 2003.

FINDING NUMBER 2002-10574-002

Noncompliance Citation

Ohio Revised Code § 5705.36 allows the District to request increased amended certificates of estimated resources and reduce amended certifications upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriations.

As of March 31, 2002, the District did not obtain an increase/reduced amended certificate in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Actual Receipts Plus 7/1/01 Balance</u>	<u>Variance</u>
Title I	\$229,261	\$697,737	\$468,476
District Managed	180,072	133,734	(46,338)

FINDING NUMBER 2002-10574-003

Material Weakness

The fixed asset records have not been maintained up to date, assets amounts were incorrectly posted, threshold amounts were not consistent, new assets were not recorded and the District's Equipment Inventory Subsystem (EIS) has not been used as designed. This lack of accountability for the District's fixed assets resulted in incorrect balances included on the financial statements.

To ensure accurate accounting over the fixed assets process we recommend the District implement procedures to update the fixed assets records on a regular basis using the EIS system more efficiently.

FINDING NUMBER 2002-10574-004

Reportable Condition

Advisors are required to fill out Sales Project Potential sheets for approval to hold a fundraiser project. At the end of the project, the back of the Sales Project Potential sheet is to be completed. The back side of the form contains a reconciliation, item description, quantity ordered, selling price, gross sales, less any returns. This should agree to the amount of revenues turned into the Treasurer's office. The following weaknesses were found during our testing of the Student Activity Fundraisers:

1. Sales Project Potential Sheets could not be located for all fundraisers held;
2. The reconciliations on the reverse side did not show the total quantity ordered, instead it showed what was sold with no explanation for the difference;
3. The reconciliations did not contain the selling price of each unit;
4. The reconciliations did not explain unsold items;
5. There is no inventory maintained for items not sold;
6. No one is reviewing the accuracy of the Sales Project Potential Sheets at the end of the projects.

Inadequate documentation could result in revenues being diverted without timely detection. To improve controls we recommend:

1. All Student Activity Fundraisers have completed Sales Project Potential Sheets;
2. The reconciliations should show the total quantity ordered. This should agree to the items purchased per the invoice.
3. The reconciliations should show the selling price of each unit.
4. The reconciliations should explain any items not sold, returned, spoiled, stolen, or given away free. The total purchased, per invoice, minus the amount of the items not sold, returned, spoiled, stolen, or given away free, will equal the total items sold.
5. An inventory should be maintained for the items not sold along with a copy of the Sales Project Potential Sheet. If and when these items are sold, the information should be put on the Sales Project Potential Sheet and turned in.
6. The Principal and Treasurer who are approving the project should follow up on the finish of the project by recalculating the information on the reconciliation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2001-10574-001	ORC § 5705.10 Negative Fund balances	No	Partially corrected. Reported in the management letter.
2001-10574- 002	ORC § 5705.36 Required Amended Certificate of Estimated Resources	No	Not Corrected. Repeated in this audit as Finding Number 2002-10574-002.
2001-10574-003	ORC § 5705.39 Appropriations Exceeded Estimated Revenue	No	Partially corrected. Reported in the management letter.



**Auditor of State
Betty Montgomery**

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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
APRIL 1, 2003**