



Dave Yost • Auditor of State

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, as of June 30, 2012, and the respective changes in cash financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The federal awards receipts and expenditures schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurances on it.



Dave Yost
Auditor of State

January 15, 2013

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

The discussion and analysis of Fredericktown Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2012 are as follows:

Certificated and non-certificated employees received a 1.5 percent increase in base salary, and .5 percent step increases.

Using the Basic Financial Statements

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

Report Components

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

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the School District's government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during 2012, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts and interest are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the general and bond retirement funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The School District has no enterprise funds. When the services are provided to other departments of the School District, the service is reported as an internal service fund. The School District has one internal service fund, for self insurance.

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2012 compared to 2011 on a cash basis:

(Table 1)
Net Assets

	Governmental Activities		
	2012	2011	Change
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,903,927	\$3,480,160	\$423,767
Cash and Cash Equivalents with Fiscal Agents	1,812,960	1,735,907	77,053
Total Assets	<u>\$5,716,887</u>	<u>\$5,216,067</u>	<u>\$500,820</u>
Net Assets			
Restricted for:			
Capital Projects	\$546,135	\$448,302	\$97,833
Debt Service	413,891	430,244	(16,353)
Other Purposes	386,833	267,027	119,806
Unrestricted	<u>4,370,028</u>	<u>4,070,494</u>	<u>299,534</u>
Total Net Assets	<u>\$5,716,887</u>	<u>\$5,216,067</u>	<u>\$500,820</u>

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

Table 2 shows the change in net assets for 2012 compared to 2011 for governmental activities:

(Table 2)

Change in Net Assets

	Governmental Activities		
	2012	2011	Change
Receipts			
<i>Program Receipts:</i>			
Charges for Services and Sales	\$1,303,059	\$1,322,714	(\$19,655)
Operating Grants and Contributions	928,796	1,882,650	(953,854)
Capital Grants and Contributions	61,110	168,164	(107,054)
Total Program Revenues	<u>2,292,965</u>	<u>3,373,528</u>	<u>(1,080,563)</u>
<i>General Receipts:</i>			
Property Taxes	3,814,026	3,698,173	115,853
Grants and Entitlements	4,893,770	4,471,807	421,963
Unrestricted Contributions	4,450	0	4,450
Interest	36,659	43,835	(7,176)
Other	136,701	130,800	5,901
Total General Revenues	<u>8,885,606</u>	<u>8,344,615</u>	<u>540,991</u>
Total Receipts	<u>11,178,571</u>	<u>11,718,143</u>	<u>(539,572)</u>
Disbursements			
<i>Instruction</i>			
Regular	4,480,567	4,496,778	16,211
Special	1,252,532	1,304,623	52,091
Vocational	156,834	138,198	(18,636)
Adult/Continuing	2,650	1,886	(764)
Student Intervention Services	0	3,450	3,450
<i>Support Services:</i>			
Pupil	418,550	364,696	(53,854)
Instructional Staff	523,122	651,910	128,788
Board of Education	29,828	41,133	11,305
Administration	781,275	731,679	(49,596)
Fiscal	256,072	255,427	(645)
Business	43,970	71,606	27,636
Operation and Maintenance of Plant	732,850	1,235,216	502,366
Pupil Transportation	449,796	505,794	55,998
Central	6,426	6,825	399
Operation of Non Instructional Services	378,772	380,443	1,671
Extracurricular Activities	402,483	495,938	93,455
Capital Outlay	0	29,150	29,150
Debt Service	762,024	704,783	(57,241)
Total Disbursements	<u>10,677,751</u>	<u>11,419,535</u>	<u>741,784</u>
Increase in Net Assets	500,820	298,608	202,212
Net Assets Beginning of Year	<u>5,216,067</u>	<u>4,917,459</u>	<u>298,608</u>
Net Assets End of Year	<u><u>\$5,716,887</u></u>	<u><u>\$5,216,067</u></u>	<u><u>\$500,820</u></u>

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

Grants and entitlements are the School District's largest source of receipts, followed by property taxes. The School District carefully monitors both these receipts and uses both a five year forecast and a spending plan to predict future receipts and disbursements of the School District.

Some of the significant disbursements during fiscal year 2012 were in the categories of regular and special instruction. Regular and special instruction disbursements are primarily salary and benefit costs for the School District's teachers. Salary and benefit costs increased due to 1.5 percent salary and step increases and a 6.29 percent increase in health insurance premiums.

Governmental Activities

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers, unrestricted grants and other miscellaneous revenue. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Total and Net Cost of Program Services

	<u>Total Cost of Service</u> 2012	<u>Net Cost of Service</u> 2012	<u>Total Cost of Service</u> 2011	<u>Net Cost of Service</u> 2011
Instruction	\$5,892,583	\$4,371,216	\$5,944,935	\$3,786,287
Support Services:				
Pupil and Instructional Staff	941,672	837,759	1,016,606	882,981
Board of Education, Administration, Fiscal and Business	1,111,145	1,111,145	1,099,845	1,099,845
Operation and Maintenance of Plant	732,850	660,043	1,235,216	1,154,139
Pupil Transportation	449,796	449,796	505,794	209,163
Central	6,426	1,026	6,825	0
Operation of Non Instructional Services	378,772	(35,805)	380,443	(16,515)
Extracurricular Activities	402,483	227,582	495,938	262,258
Capital Outlay	0	0	29,150	29,150
Debt Service	762,024	762,024	704,783	704,783
Total Expenses	<u>\$10,677,751</u>	<u>\$8,384,786</u>	<u>\$11,419,535</u>	<u>\$8,112,091</u>

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

The School District's Funds

Information about the School District's major funds starts on page 13. All governmental funds had total revenues of \$11,145,353, and expenditures of \$10,721,586. The net change in fund balance for the fiscal year was an increase of \$423,767. The general fund had revenues of \$8,951,563 and expenditures of \$8,716,081. This surplus of \$235,482 is primarily due to a small increase in revenues from the prior fiscal year and an overall reduction in support service expenditures. The bond retirement fund had revenues of \$541,620 and expenditures of \$557,973 leaving a deficit in current fiscal year activity of \$16,353.

General Fund Budgeting Highlights

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

During 2012, the School District amended its general fund budget several times to allow for changes to the budget.

For the general fund, the final budget revenue estimate was \$8,855,900, above original budget estimates of \$8,680,900. Of this \$175,000 difference, most was due to conservative estimates for taxes and tuition and fees revenues.

The original appropriations estimate of \$9,177,636 was equal to the final appropriations. Actual expenditures were only \$8,737,340 or \$440,296 less than anticipated. This \$440,296 difference is due to the fact that the School District did not spend what it anticipated in almost every expenditure category.

Capital Assets and Debt Administration

Capital Assets

The School District maintains a listing of its capital assets. These records are not required to be presented in the financial statements.

Debt

At June 30, 2012, the School District's outstanding debt included \$6,283,840 in general obligation bonds issued for improvements to buildings and structures, \$537,390 in energy conservation notes and \$1,431,103 in capital leases pertaining to School District construction, band equipment and two copiers. For further information regarding the School District's debt, refer to Note 11 to the basic financial statements.

Current Issues

In fiscal year 2013 the School District has established a medical benefits committee of staff, administration and board members. The School District and the committee will be looking at cost saving measures for fiscal year 2014 and beyond. The School District will also be moving from Medical Mutual of Ohio to United Health Care for their medical network and moving from Self Funded Plans, Inc. to Universal Medical Resources for their Third Party Administrator.

Fredericktown Local School District
Management's Discussion and Analysis
For the Year Ended June 30, 2012
Unaudited

The end of fiscal year 2010 marked the expiration of the teacher's three-year contract. A new three-year labor agreement was approved on July 13, 2010, with a two year salary set at 0 percent and 1.5 percent increase with re-opener on salary and benefits for the last year of the contract. The end of fiscal year 2010 also marked the expiration of the classified employees' three year contract. A three-year labor agreement was approved June 28, 2010. The economic package contained in the contract provides for a 0 percent increase for the first year, a 1.5 percent increase in the second year with a re-opener on salary and benefits for the third year. The third year resulted in a zero increase on the base and no change to the insurance plan for both certificated and classified staff.

In fiscal year 2009, renovations were completed to move the Board of Education Office to the "old" high school administration wing at 117 Columbus Road. Additional improvements were begun at this facility in fiscal year 2010 to increase energy efficiency. This facility now houses two other organizations as well; a senior citizens community group rents one classroom and Knox Community Hospital rents one room for a fitness center. The rental income provides additional resources to the School District.

The School District placed a 5 year, .5 percent earned income tax on the November 8, 2011 ballot. Although the School District has worked to control and reduce costs over the past several years, State funding has not kept pace with the increased need for resources. Voters did not approve the levy. As a result, the School District maintained the increased pay-to-participate fee for extracurricular activities and will continue to monitor all expenditures.

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

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

Performance Index

Fredericktown Local School District will not know if they will continue to be rated excellent because of the delay by the Ohio Department of Education (ODE) to release performance index information. This information will be released by ODE when their attendance performance audits are complete. Our motto in Fredericktown is "Every Day, Everyone Working Together to Learn and Improve". Our staff is committed, focused, and has worked to build strong learning communities in our buildings. These learning communities initiated quarterly assessments, analyzed data, and emphasized critical thinking and problem solving. Our curriculum team worked diligently on aligning the curriculum to the State standards. Most importantly, we have students who care about their education and a community that supports our schools.

Contacting the School District's Financial Management

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

Basic Financial Statements

Fredericktown Local School District

Statement of Net Assets - Cash Basis

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,903,927
Cash and Cash Equivalents with Fiscal Agents	<u>1,812,960</u>
<i>Total Assets</i>	<u><u>\$5,716,887</u></u>
 Net Assets	
Restricted for:	
Capital Projects	\$546,135
Debt Service	413,891
Other Purposes	386,833
Unrestricted	<u>4,370,028</u>
<i>Total Net Assets</i>	<u><u>\$5,716,887</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2012

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Current:					
Instruction:					
Regular	\$4,480,567	\$932,717	\$99,326	\$0	(\$3,448,524)
Special	1,252,532	0	481,433	7,891	(763,208)
Vocational	156,834	0	0	0	(156,834)
Adult/Continuing	2,650	0	0	0	(2,650)
Support Services:					
Pupil	418,550	0	0	0	(418,550)
Instructional Staff	523,122	0	101,044	2,869	(419,209)
Board of Education	29,828	0	0	0	(29,828)
Administration	781,275	0	0	0	(781,275)
Fiscal	256,072	0	0	0	(256,072)
Business	43,970	0	0	0	(43,970)
Operation and Maintenance of Plant	732,850	0	22,457	50,350	(660,043)
Pupil Transportation	449,796	0	0	0	(449,796)
Central	6,426	0	5,400	0	(1,026)
Operation of Non-Instructional Services	378,772	195,441	219,136	0	35,805
Extracurricular Activities	402,483	174,901	0	0	(227,582)
Debt Service	762,024	0	0	0	(762,024)
Totals	\$10,677,751	\$1,303,059	\$928,796	\$61,110	(8,384,786)
General Receipts					
Property Taxes Levied for:					
					3,145,660
					188,518
					432,725
					47,123
					4,893,770
					4,450
					36,659
					136,701
					<u>8,885,606</u>
					Change in Net Assets 500,820
					<u>Net Assets Beginning of Year 5,216,067</u>
					<u>Net Assets End of Year \$5,716,887</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$2,557,068</u>	<u>\$413,891</u>	<u>\$932,968</u>	<u>\$3,903,927</u>
Fund Balances				
Restricted	\$0	\$413,891	\$932,968	\$1,346,859
Assigned	876,584	0	0	876,584
Unassigned	<u>1,680,484</u>	<u>0</u>	<u>0</u>	<u>1,680,484</u>
<i>Total Fund Balances</i>	<u>\$2,557,068</u>	<u>\$413,891</u>	<u>\$932,968</u>	<u>\$3,903,927</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
*Reconciliation of Total Governmental Fund Cash Balances to
Net Assets of Governmental Cash Activities
June 30, 2012*

Total Governmental Funds Balances \$3,903,927

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

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net assets. 1,812,960

Net Assets of Governmental Activities \$5,716,887

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$3,145,660	\$432,725	\$235,641	\$3,814,026
Intergovernmental	4,784,875	108,895	983,142	5,876,912
Interest	3,231	0	210	3,441
Tuition and Fees	827,747	0	0	827,747
Extracurricular Activities	83,096	0	155,419	238,515
Contributions and Donations	4,450	0	6,764	11,214
Charges for Services	1,265	0	195,441	196,706
Rentals	40,091	0	0	40,091
Miscellaneous	61,148	0	75,553	136,701
<i>Total Receipts</i>	<u>8,951,563</u>	<u>541,620</u>	<u>1,652,170</u>	<u>11,145,353</u>
Disbursements				
Current:				
Instruction:				
Regular	4,423,084	0	79,588	4,502,672
Special	763,566	0	492,667	1,256,233
Vocational	157,813	0	0	157,813
Adult/Continuing	0	0	2,650	2,650
Support Services:				
Pupil	420,062	0	0	420,062
Instructional Staff	380,053	0	146,535	526,588
Board of Education	29,828	0	0	29,828
Administration	778,421	0	6,230	784,651
Fiscal	238,950	11,093	6,033	256,076
Business	43,970	0	0	43,970
Operation and Maintenance of Plant	664,551	0	70,154	734,705
Pupil Transportation	441,800	0	11,847	453,647
Central	1,026	0	5,400	6,426
Operation of Non-Instructional Services	547	0	381,211	381,758
Extracurricular Activities	276,332	0	126,151	402,483
Debt Service:				
Principal Retirement	73,920	245,000	57,000	375,920
Interest and Fiscal Charges	22,158	301,880	62,066	386,104
<i>Total Disbursements</i>	<u>8,716,081</u>	<u>557,973</u>	<u>1,447,532</u>	<u>10,721,586</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>235,482</u>	<u>(16,353)</u>	<u>204,638</u>	<u>423,767</u>
Other Financing Sources (Uses)				
Advances In	0	0	13,001	13,001
Advances Out	(13,001)	0	0	(13,001)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,001)</u>	<u>0</u>	<u>13,001</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	222,481	(16,353)	217,639	423,767
<i>Fund Balances Beginning of Year</i>	<u>2,334,587</u>	<u>430,244</u>	<u>715,329</u>	<u>3,480,160</u>
<i>Fund Balances End of Year</i>	<u>\$2,557,068</u>	<u>\$413,891</u>	<u>\$932,968</u>	<u>\$3,903,927</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$423,767
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*Amounts reported for governmental activities in the
statement of activities are different because*

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

77,053

Change in Net Assets of Governmental Activities

\$500,820

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$3,000,000	\$3,125,000	\$3,145,660	\$20,660
Intergovernmental	4,770,000	4,770,000	4,784,875	14,875
Interest	10,000	10,000	3,231	(6,769)
Tuition and Fees	716,000	766,000	772,076	6,076
Extracurricular Activities	50,000	50,000	64,129	14,129
Contributions and Donations	250	250	4,450	4,200
Charges for Services	4,000	4,000	1,265	(2,735)
Rentals	30,450	30,450	40,091	9,641
Miscellaneous	100,200	100,200	61,148	(39,052)
<i>Total Receipts</i>	<u>8,680,900</u>	<u>8,855,900</u>	<u>8,876,925</u>	<u>21,025</u>
Disbursements				
Current:				
Instruction:				
Regular	4,290,050	4,259,950	4,259,950	0
Special	1,058,660	1,056,310	921,236	135,074
Vocational	165,705	165,705	162,204	3,501
Support Services:				
Pupil	407,362	410,862	410,862	0
Instructional Staff	459,200	492,200	403,944	88,256
Board of Education	54,769	54,769	34,490	20,279
Administration	805,111	800,461	779,392	21,069
Fiscal	254,883	254,883	239,147	15,736
Business	39,480	39,480	39,480	0
Operation and Maintenance of Plant	740,658	740,158	683,077	57,081
Pupil Transportation	523,492	523,492	453,215	70,277
Central	0	1,100	1,026	74
Operation of Non-Instructional Services	900	900	547	353
Extracurricular Activities	280,520	280,520	252,692	27,828
Debt Service:				
Principal Retirement	74,346	74,346	73,920	426
Interest and Fiscal Charges	22,500	22,500	22,158	342
<i>Total Disbursements</i>	<u>9,177,636</u>	<u>9,177,636</u>	<u>8,737,340</u>	<u>440,296</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(496,736)</u>	<u>(321,736)</u>	<u>139,585</u>	<u>461,321</u>
Other Financing Sources (Uses)				
Transfers Out	(5,000)	(5,000)	0	5,000
Advances In	10,000	10,000	0	(10,000)
Advances Out	(5,000)	(5,000)	(13,001)	(8,001)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>(13,001)</u>	<u>(13,001)</u>
<i>Net Change in Fund Balance</i>	(496,736)	(321,736)	126,584	448,320
<i>Fund Balance Beginning of Year</i>	2,223,400	2,223,400	2,223,400	0
Prior Year Encumbrances Appropriated	25,902	25,902	25,902	0
<i>Fund Balance End of Year</i>	<u>\$1,752,566</u>	<u>\$1,927,566</u>	<u>\$2,375,886</u>	<u>\$448,320</u>

See accompanying notes to the basic financial statements

Frdericktown Local School District
Statement of Fund Net Assets - Cash Basis
Internal Service Fund
June 30, 2012

	<u>Insurance</u>
Assets	
Cash and Cash Equivalents with Fiscal Agents	<u>\$1,812,960</u>
Net Assets	
Unrestricted	<u>\$1,812,960</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Statement of Receipts, Disbursements
and Changes in Net Assets - Cash Basis
Internal Service Fund
For the Fiscal Year Ended June 30, 2012*

	<u>Insurance</u>
Operating Receipts	
Charges for Services	<u>\$2,551,665</u>
Operating Disbursements	
Purchased Services	414,594
Claims	<u>2,093,236</u>
<i>Total Operating Disbursements</i>	<u>2,507,830</u>
<i>Operating Income</i>	43,835
Non-Operating Receipts	
Interest	<u>33,218</u>
<i>Change in Net Assets</i>	77,053
<i>Net Assets Beginning of Year</i>	<u>1,735,907</u>
<i>Net Assets End of Year</i>	<u><u>\$1,812,960</u></u>

See accompanying notes to the basic financial statements

Fredericktown Local School District
Statement of Fiduciary Assets and Liabilities - Cash Basis
Agency Fund
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$25,706</u>
Liabilities	
Undistributed Monies	\$4,778
Due to Students	<u>20,928</u>
Total Liabilities	<u>\$25,706</u>

See accompanying notes to the basic financial statements

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 1 - Reporting Entity

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

The School District was established in 1876. The School District serves an area of approximately 94 square miles. It encompasses most of the northwest quadrant of Knox County, including the Village of Fredericktown and portions of surrounding townships. In addition, a small portion of Morrow County is included in the School District boundaries. It is staffed by 37 classified employees and 74 certificated employees who provide services to 1,180 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

Primary Government

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Fredericktown Local School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Component Units

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District has no component units.

Other Organizations

The School District participates in the Tri-Rivers Educational Computer Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, both insurance purchasing pools. These organizations are presented in Note 15 to the basic financial statements.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting Portion of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its governmental activities and internal service fund. Following are the more significant of the School District's accounting policies.

Basis of Presentation

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

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

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major governmental funds are:

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

Bond Retirement Debt Service Fund - The bond retirement fund is used to account for and report property taxes and intergovernmental revenues, restricted for the payment of general long-term debt principal, interest and related costs.

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

Proprietary Funds The School District classifies funds financed primarily from user charges for goods or services as proprietary. The School District only has an internal service fund.

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

Fiduciary Funds The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

Basis of Accounting

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

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

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

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds without resolution by the Board of Education.

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

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

Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During fiscal year 2012, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. 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 net asset value per share price which is the price the investment could be sold for at June 30, 2012.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$3,231 which includes \$977 assigned from other School District funds.

The School District participates in the OME-ERSA insurance consortium for self-insurance. These monies are reflected on the statement of net assets as “cash and cash equivalents with fiscal agents.” The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium.

Inventory and Prepaid Items

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

Capital Assets

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

Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District’s cash basis of accounting.

Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Note 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

The School District’s cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

Net Assets

Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, school supplies and maintenance and athletics. The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Interfund Transactions

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

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

Fredericktown Local School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 – Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Debt Service	Nonmajor Governmental Funds	Total
<i>Restricted for</i>				
Food Service Operations	\$0	\$0	\$105,942	\$105,942
Other Grants	0	0	28,726	28,726
Classroom Maintenance	0	0	211,876	211,876
Athletics and Music	0	0	40,289	40,289
Debt Service Payments	0	413,891	0	413,891
Capital Improvements	0	0	546,135	546,135
<i>Total Restricted</i>	0	413,891	932,968	1,346,859
<i>Assigned to</i>				
Other Purposes	876,584	0	0	876,584
<i>Unassigned</i>	1,680,484	0	0	1,680,484
<i>Total Fund Balances</i>	<u>\$2,557,068</u>	<u>\$413,891</u>	<u>\$932,968</u>	<u>\$3,903,927</u>

Note 4 – Compliance and Accountability

Compliance

Contrary to Section 5705.41(B), Ohio Revised Code, the athletic fund had final appropriations in excess of final estimated resources plus available balances for fiscal year ended June 30, 2012.

Accountability

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

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$95,554. Also, the uniform school supplies, latchkey, and public school support funds are included with the general fund on the balance sheet, as they do not have a committed or restricted revenue source.

Note 6 – Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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. Investments may only be made through specified dealers and institutions.

At June 30, 2012, the School District's self-insurance internal service fund had a balance of \$1,812,960 with OME-RESA, a claims servicing pool (See Note 15). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$2,691,812 of the School District's bank balance of \$3,593,711 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments As of June 30, 2012, the School District only had an investment of \$409,396 in STAR Ohio, the State Treasurer's Investment Pool. This investment has an average maturity of 52.5 days.

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The School District allocated 100 percent of its investments in STAR Ohio as of June 30, 2012.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2011, on the value as of December 31, 2011. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Morrow Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$117,494,830	85.33%	\$120,329,050	84.74%
Public Utility Personal	4,651,200	3.38	5,366,710	3.78
General Business Personal	15,548,370	11.29	16,299,130	11.48
Total	\$137,694,400	100.00%	\$141,994,890	100.00%

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

\$48.06

\$48.29

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 8 - Defined Benefit Pension Plans

School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contributions rate is allocated to the Health Care and Medicare B funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$122,996, \$117,899 and \$132,121, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System

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

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$487,783 and \$28,114 for the fiscal year ended June 30, 2012, \$517,733 and \$31,987 for the fiscal year ended June 30, 2011, and \$591,551 and \$20,292 for the fiscal year ended June 30, 2010. For fiscal year 2012, 84.76 percent has been contributed for the DB plan and 84.76 percent has been contributed for the Combined Plan. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2012 were \$1,022 made by the School District and \$730 made by the plan members. In addition, member contributions of \$20,082 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 9 - Postemployment Benefits

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue

Fredericktown Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than actuarially determined amount: for 2012, this amount was \$18,774.

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

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$5,327, \$14,276, and \$4,756, respectively. 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$7,264, \$7,587, and \$7,857 respectively; 100 percent has been contributed for fiscal year 2012, 2011 and 2010.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$39,684, \$41,387, and \$42,111 respectively; 84.76 percent has been contributed for 2012 and 100 percent for fiscal year 2010 and 2011.

Note 10 - Contingencies

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Litigation

As of June 30, 2012, the School District was not party to any legal proceedings.

Note 11 – Debt

Changes in long-term obligations of the School District during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/2011	Additions	Reductions	Principal Outstanding 6/30/2012	Amounts Due in One Year
Governmental Activities					
<i>General Obligation Bonds</i>					
<i>School Improvement Bonds</i>					
Current Issue Serial Bonds	\$2,130,000	\$0	(\$225,000)	\$1,905,000	\$230,000
Unamortized Premium	51,865	0	(6,483)	45,382	0
Total School Improvement Bonds	2,181,865	0	(231,483)	1,950,382	230,000
<i>Refunding School Bonds</i>					
Current Issue Serial Bonds	2,670,000	0	(20,000)	2,650,000	20,000
Capital Appreciation Bonds	30,000	0	0	30,000	0
Accretion on Capital					
Appreciation Bonds	42,318	15,423	0	57,741	0
Serial Term Bonds	1,505,000	0	0	1,505,000	0
Unamortized Premium	249,933	0	(14,282)	235,651	0
Unamortized Loss	(153,762)	0	8,828	(144,934)	0
Total Refunding School Bonds	4,343,489	15,423	(25,454)	4,333,458	20,000
Total General Obligation Bonds	6,525,354	15,423	(256,937)	6,283,840	250,000
<i>Other Long-Term Obligations</i>					
2010 Energy Conservation Notes	568,464	0	(31,074)	537,390	32,371
Capital Leases	1,324,000	198,009	(99,846)	1,422,163	96,505
Total Other Long-Term Obligations	1,892,464	198,009	(130,920)	1,959,553	128,876
Total Governmental Activities					
Long-Term Liabilities	\$8,417,818	\$213,432	(\$387,857)	\$8,243,393	\$378,876

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

On April 26, 2007, the School District issued \$4,295,000 in voted general obligation bonds which included serial, capital appreciation (deep discount) and term bonds in the amount of \$2,760,000, \$30,000 and \$1,505,000, respectively. The general obligation bonds were issued at 3.75 to 5.25 percent interest

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

rate for the purpose of refunding a portion of the 2001 school improvement bonds to take advantage of lower interest rates. The bonds were issued for a twenty-two year period with final maturity at December 1, 2028. The bonds will be retired from the bond retirement fund.

The current issue term bonds will be repaid through annual debt service repayments through fiscal year 2029. The capital appreciation bonds were originally sold at a discount of \$335,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is fiscal year 2020.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$365,000. The accretion recorded for 2012 was \$15,423, for a total outstanding bond liability of \$87,741 at June 30, 2012.

In 2010, a \$600,000 energy conservation note was issued for the purpose of purchasing and installing energy conservation measures throughout the School District. This debt will be fully repaid in the year 2025.

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

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

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

All general obligation bonds and energy conservation notes will be paid from property taxes. The capital lease will be paid from the building capital projects fund.

The School District's overall debt margin was \$7,059,637 with an unvoted debt margin of \$141,508 at June 30, 2012. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$250,000	\$225,254	\$0	\$0	\$0	\$63,962
2014	260,000	210,639	0	0	0	63,962
2015	275,000	195,286	0	0	0	63,962
2016	295,000	178,956	0	0	0	63,962
2017	310,000	161,615	0	0	0	63,962
2018-2022	1,425,000	571,478	30,000	335,000	0	319,810
2023-2027	1,740,000	181,937	0	0	480,000	789,611
2028-2029	0	0	0	0	1,025,000	1,069,093
Totals	<u>\$4,555,000</u>	<u>\$1,725,165</u>	<u>\$30,000</u>	<u>\$335,000</u>	<u>\$1,505,000</u>	<u>\$2,498,324</u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Principal and interest requirements to retire long-term notes outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Energy Conservation Notes	
	Principal	Interest
2013	\$32,371	\$20,862
2014	33,658	19,574
2015	34,998	18,234
2016	35,471	19,084
2017	37,118	17,436
2018-2022	211,606	62,308
2023-2025	152,168	13,200
Total	<u>\$537,390</u>	<u>\$170,698</u>

Note 12 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the School District contracted with Selective Insurance for buildings and contents, liability and fleet insurance.

Type of Coverage	Coverage Amount
Property (Replacement Cost)	\$41,735,574
Cyber Coverage Third Party Liability	20,000,000
General Liability, in aggregate	6,000,000
Auto Liability	3,000,000
Sexual Abuse and Molestation	3,000,000
Educator's Legal Liability	3,000,000
Crime	1,000,000
Umbrella Coverage	5,000,000

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

Employee Benefits

Insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$542,414, which is based on an estimate provided by the third party administrator, includes unpaid claim costs and estimates of costs relating to incurred but not reported claims. The estimate was not affected by incremental claim adjustment expense and does not include other allocated or unallocated claim adjustment expenses.

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

A comparison of self-insurance fund cash and investment to the actuarially-measured liability as of June 30 follows:

	<u>Cash and Investments</u>	<u>Actuarial Liabilities</u>
2011	\$1,735,907	\$356,888
2012	1,812,960	542,414

Workers' Compensation

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 13 - Capital Leases

The capital lease obligation relates to two copiers, band equipment, and the construction of various school buildings. As part of the agreement for the buildings construction project, the Ohio Association of School Business Officials, as lessor, deposited \$1,527,000 into the School District's account. The proceeds were used for the School District's portion of the Ohio School Facilities Commission school renovation project.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2012.

<u>Year Ending June 30,</u>	
2013	\$159,413
2014	159,682
2015	159,818
2016	159,821
2017	115,201
2018 - 2022	578,725
2023 - 2027	<u>582,030</u>
Total minimum lease payments	1,914,690
Less: Amount representing interest	<u>(492,526)</u>
Present Value of Minimum Lease Payments	<u><u>\$1,422,164</u></u>

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 14 - Set Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the changes in the year-end set-aside amounts for capital acquisitions. Disclosure of this information is required by the State statute.

	<u>Capital Improvements</u>
Set-aside Reserve Balances as of June 30, 2011	(\$1,263,768)
Current Year Set-aside Requirement	205,487
Current Year Offsets	<u>179,842</u>
Total	<u>(\$1,238,123)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$1,238,123)</u>
Set-aside Reserve Balance as of June 30, 2012	<u><u>\$0</u></u>

Note 15 - Jointly Governed Organizations and Public Entity Pools

Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$29,860 to TRECA during fiscal year 2012 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

Insurance Purchasing Pools

The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP)

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

Fredericktown Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self Insurance Plan, A risk-sharing, claims servicing, and insurance purchasing pool comprised of ninety-one members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plans' business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from \$35,000 to \$100,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$500,000, and all claims between the deductible and the \$500,000 are paid from the internal shared risk pool. The internal pool is not owned by the participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$500,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administration fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Self-Funded Plans, Incorporated.

Note 16 – Interfund Transfers

Transfers

At June 30, 2012, the general fund had an unpaid interfund cash advance, in the amount of \$13,001, for short-term loans made to a nonmajor fund. This loan was made to support programs and projects in the race to the top special revenue fund pending the receipt of grant money that will be used to repay the loan. This loan is expected to be repaid in one year.

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**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 55,835	\$ 55,835
Cash Assistance:			
Breakfast Program	10.553	53,067	53,067
National School Lunch Program	10.555	159,337	159,337
Special Milk Program	10.556	2,744	2,744
Total Child Nutrition Cluster		<u>270,983</u>	<u>270,983</u>
Total U.S. Department of Agriculture		<u>270,983</u>	<u>270,983</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	287,291	287,291
Special Education Grants to States	84.027	275,471	275,471
ARRA - Special Education Grants to States	84.391	-	10,760
Total Special Education Cluster		<u>275,471</u>	<u>286,231</u>
Race to the Top - ARRA	84.395	26,253	26,253
Education Technology State Grant	84.318	2,167	2,167
Improving Teacher Quality	84.367	<u>72,394</u>	<u>72,519</u>
Total U.S. Department of Education		<u>663,576</u>	<u>674,461</u>
Total		<u>\$ 934,559</u>	<u>\$ 945,444</u>

The accompanying notes are an integral part of this schedule.

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Fredericktown Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 15, 2013, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

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

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

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

Dave Yost
Auditor of State

January 15, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Fredericktown Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

In our opinion, the Fredericktown Local School District, Knox County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State

January 15, 2012

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

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

FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)

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

FINDING NUMBER 2012-01

Noncompliance – Annual Financial Report

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38 the School District may be fined for its failure to file the required financial report.

We recommend the District prepare its financial statements in accordance with GAAP.

Officials' Response: The Board of Education approved the recommendation that Fredericktown Local School District not prepare GAAP statements for an estimated savings to the District of \$8,000. The District continues to monitor, update and track capital assets. Local Government Services continues to assist with the GAAP look-a-like report and Management & Discussion Analysis.

3. FINDINGS FOR FEDERAL AWARDS

None

**FREDERICKTOWN LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev Code Section 117.38 – Annual Financial Report not prepared in accordance with generally accepted accounting principles	No	Reissued as Finding 2012-01

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Dave Yost • Auditor of State

FREDERICKTOWN LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 19, 2013