



Dave Yost • Auditor of State

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Strasburg-Franklin Local School District
Tuscarawas County
140 North Bodmer Avenue
Strasburg, Ohio 44680

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the Strasburg-Franklin Local School District, Tuscarawas County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the District prepared these financial statements using the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. However, Ohio Administrative Code § 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District as of and for the year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 11, 2015

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total (Memorandum Only)</u>
Cash Receipts:					
From local sources:					
Taxes	\$ 2,351,268	\$ 34,835	\$ 353,106	\$ 76,255	\$ 2,815,464
Tuition	229,605	-	-	-	229,605
Earnings on investments	1,639	-	-	297	1,936
Extracurricular	25,216	65,122	-	-	90,338
Classroom materials and fees	16,499	-	-	-	16,499
Rental income	6,701	-	-	-	6,701
Contributions and donations	5,869	3,065	-	-	8,934
Other local revenues	56,418	1,020	-	4,993	62,431
Intergovernmental - state	2,844,651	132,371	51,981	13,222	3,042,225
Intergovernmental - federal	-	225,369	-	-	225,369
Total revenues	<u>5,537,866</u>	<u>461,782</u>	<u>405,087</u>	<u>94,767</u>	<u>6,499,502</u>
Cash Disbursements:					
Current:					
Instruction:					
Regular	2,971,813	110,498	-	10,620	3,092,931
Special	412,545	212,845	-	-	625,390
Vocational	86,292	-	-	-	86,292
Other	43,802	-	-	-	43,802
Support services:					
Pupil	155,859	969	-	-	156,828
Instructional staff	210,777	12,609	-	-	223,386
Board of education	24,644	-	-	-	24,644
Administration	522,665	-	-	-	522,665
Fiscal	248,079	799	8,137	1,739	258,754
Operations and maintenance	527,539	12,238	-	29,358	569,135
Pupil transportation	270,264	-	-	-	270,264
Central	53,385	-	-	-	53,385
Operation of non-instructional services	804	4,210	-	-	5,014
Extracurricular activities	114,916	61,183	-	-	176,099
Facilities acquisition and construction	-	10,050	-	9,877	19,927
Debt service:					
Principal retirement	-	-	245,000	-	245,000
Interest and fiscal charges	-	-	127,498	-	127,498
Total expenditures	<u>5,643,384</u>	<u>425,401</u>	<u>380,635</u>	<u>51,594</u>	<u>6,501,014</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>(105,518)</u>	<u>36,381</u>	<u>24,452</u>	<u>43,173</u>	<u>(1,512)</u>
Other financing sources (uses):					
Transfers in	-	591	-	-	591
Transfers (out)	(591)	-	-	-	(591)
Advances in	7,303	62,887	-	-	70,190
Advances (out)	(62,887)	(7,303)	-	-	(70,190)
Reduction of prior year expenditure	8,192	-	-	-	8,192
Total other financing sources (uses)	<u>(47,983)</u>	<u>56,175</u>	<u>-</u>	<u>-</u>	<u>8,192</u>
Net change in fund cash balances	(153,501)	92,556	24,452	43,173	6,680
Fund cash balances, July 1, 2013	<u>2,640,819</u>	<u>371,487</u>	<u>351,800</u>	<u>2,001,181</u>	<u>5,365,287</u>
Restricted	-	464,043	376,252	2,044,354	2,884,649
Assigned	33,381	-	-	-	33,381
Unassigned	<u>2,453,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,453,937</u>
Fund cash balances, June 30, 2014	<u>\$ 2,487,318</u>	<u>\$ 464,043</u>	<u>\$ 376,252</u>	<u>\$ 2,044,354</u>	<u>\$ 5,371,967</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	Agency	
Operating cash receipts:				
Food services	\$ 92,847	\$ -	\$ -	\$ 92,847
Extracurricular activities	-	-	39,485	39,485
Total operating cash receipts.	<u>92,847</u>	<u>-</u>	<u>39,485</u>	<u>132,332</u>
Operating cash disbursements:				
Personal services.	150,090	-	-	150,090
Purchased services.	1,232	-	-	1,232
Materials and supplies	62,955	-	-	62,955
Other	-	-	28,749	28,749
Total operating cash disbursements	<u>214,277</u>	<u>-</u>	<u>28,749</u>	<u>243,026</u>
Operating income (loss)	<u>(121,430)</u>	<u>-</u>	<u>10,736</u>	<u>(110,694)</u>
Nonoperating cash receipts:				
Other revenue	270	-	-	270
Operating grants	119,371	-	-	119,371
Earnings on investments	2	28	-	30
Total nonoperating cash receipts.	<u>119,643</u>	<u>28</u>	<u>-</u>	<u>119,671</u>
Change in cash fund balances	(1,787)	28	10,736	8,977
Fund cash balances, July 1, 2013	<u>31,453</u>	<u>20,411</u>	<u>31,054</u>	<u>82,918</u>
Fund cash balances, June 30, 2014	<u>\$ 29,666</u>	<u>\$ 20,439</u>	<u>\$ 41,790</u>	<u>\$ 91,895</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

There have been schools in Franklin Township, Tuscarawas County, Ohio, dating back to 1816. However, the Strasburg-Franklin Local School District (the "District") was officially formed in 1946, with the closing of the last of six township schools, and the transfer of those students to the school buildings in town for their education.

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the District's one facility, staffed by 18 classified personnel, 41 certificated teaching personnel and four administrators who provide service to 662 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Buckeye Joint Vocational School District

The Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Joint Vocational School District's Board of Education is comprised of representatives from the Board of Education of each participating school district. The Joint Vocational School District's Board of Education is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. The District's students may attend the Joint Vocational School District. Each participating District's control is limited to its representation on the Joint Vocational School District's Board of Education.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 21 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 44 member districts in 11 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

Tuscarawas County Tax Incentive Review Council

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to Section 5705.62 of the Ohio Revised Code. TCTIRC has 44 members, consisting of 3 members appointed by the County Commissioners, 18 members appointed by municipal corporations, 14 members appointed by township trustees, 1 member from the county auditor's office and 8 members appointed by boards of education located within the county. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the TCTIRC can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this TCTIRC. The continued existence of the TCTIRC is not dependent on the District's continued participation and no measurable equity interest exists.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Strasburg Enterprise Zone Committee

The Strasburg Enterprise Zone Committee (Enterprise Zone) is a jointly governed organization created as a regional council of governments pursuant to State Statutes. The Enterprise Zone Committee has seven members, consisting of three members appointed by Strasburg Village Council, the Mayor of the Village, two business people, and one member appointed by the Strasburg-Franklin Local Board of Education. The committee has the authority to negotiate tax abatement agreements with current and prospective businesses located in the Enterprise Zone. There is no cost associated with being a member of this committee. The continued existence of this committee is not dependent upon the District's continued participation and no equity interest exists.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

The District participates in a Workers' Compensation Group Rating Program (GRP) administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Stark County Schools Council of Governments

The Stark County Schools Council of Governments Health Benefit Plan (the "Council") is a shared risk pool, with participants from Stark, Summit and Portage Counties. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for two-year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council receipts are generated from charges for services. Financial information can be obtained by writing to Stark County Educational Service Center, 2100 38th Street, Canton, Ohio, 44709.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements and footnotes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

C. Fund Accounting

The District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements.

The transactions of each fund are reflected in a self-balancing group of accounts, and accounting entity which stands separate from the activities reported in other funds.

The restrictions associated with each fund type are as follows:

GOVERNMENTAL FUND TYPES

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

Special Revenue Funds - Special revenue funds are used to account for proceeds of specific receipt sources (rather than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. The District had the following significant special revenue funds:

IDEA, Part B, Special Education, Education of Handicapped Children - This fund receives grant monies to assist in providing an appropriate public education to all children with disabilities.

Title I, Disadvantaged Children - This fund provides financial assistance to State and local educational agencies to meet the special needs of educationally deprived children. Included are the Even Start and Comprehensive School Reform programs.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general long-term debt principal, interest and related costs. This fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, this fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. The District's only debt service fund is the Bond Retirement Fund which is used to accumulate resources for the payment of principal and interest on the District's general obligation bonds.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The District had the following significant capital projects fund:

Building Fund - This fund is used to account for monies received and disbursed in connection with the renovation and construction of District buildings.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of receipts earned, disbursements incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's only enterprise fund is the Lunchroom Fund, which is used to account for all receipts and disbursements related to the provision of food services for the District's students and staff.

FIDUCIARY FUND TYPES

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the District's own programs.

The District's private-purpose trust fund is for the benefit of certain scholarships for students.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The District's agency fund is for student managed programs.

D. Cash and Investments

During fiscal year 2014, the District's investments included non-negotiable certificates of deposit, a money market fund and STAR Ohio. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost. Investments in money market funds and STAR Ohio are valued at share price, which is the price the investment could be sold for on June 30, 2014.

An analysis of the District's investment account at year-end is provided in Note 3.

E. Budgetary Process

1. Budget

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the alternate tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control has been established by the Board of Education at the fund level of disbursements for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

2. Tax Budget

On July 25, 2002, the Tuscarawas County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15 and the filing by January 20. In order to complete other necessary documents, the Budget Commission now requires certain information to be filed by March 14. Information required includes the general fund five year forecast submitted to the Department of Education, projected receipt and disbursements line items for all levy funds, projected receipts and debt requirements (principal and interest) and amortization schedules for the debt service fund, and balances and total anticipated activity for all other funds.

3. Estimated Resources

The Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected receipts of each fund. Prior to June 30, the District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the District.

4. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of disbursements for all funds, which is the legal level of budgetary control. Prior to the passage of the annual appropriation resolution, the Board of Education may pass a temporary appropriation measure to meet the ordinary disbursements of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the appropriations at the legal level of control must be approved by the Board of Education. The District maintains budgetary information at the object level and has the authority to allocate appropriations at the object level in the general fund and function and object level in all other funds without resolution by the Board of Education. The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. Supplemental appropriations were legally enacted by the Board during fiscal year 2014.

The budget figures, which appear in Note 4, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

5. Lapsing Of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

A summary of 2014 budgetary activity appears in Note 4.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

H. Interfund Activity

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

I. Fund Cash Balance

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

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

Assigned - Amounts in the assigned fund cash balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor 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 policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

J. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This date is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of data.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys 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 to be deposited or invested in the following securities:

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$250,650. As of June 30, 2014, the District's bank balance of \$283,784 was covered by the Federal Deposit Insurance Corporation.

Investments

As of June 30, 2014, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Money market fund	\$ 959,372	\$ 959,372
STAR Ohio	4,253,840	4,253,840
	<u>\$ 5,213,212</u>	<u>\$ 5,213,212</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The federal agency securities that underlie the District's money market fund were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Money market fund	\$ 959,372	18.40
STAR Ohio	4,253,840	81.60
	<u>\$ 5,213,212</u>	<u>100.00</u>

NOTE 4 - BUDGETARY ACTIVITY

2014 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 5,879,368	\$ 5,553,361	\$ (326,007)
Special Revenue	524,240	525,260	1,020
Debt Service	405,087	405,087	-
Capital Projects	94,767	94,767	-
Enterprise	212,490	212,490	-
Fiduciary	28	28	-
Total	<u>\$ 7,115,980</u>	<u>\$ 6,790,993</u>	<u>\$ (324,987)</u>

2014 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General	\$ 6,085,456	\$ 5,727,140	\$ 358,316
Special Revenue	485,070	483,241	1,829
Debt Service	380,577	380,635	(58)
Capital Projects	53,615	51,594	2,021
Enterprise	201,968	214,277	(12,309)
Fiduciary	1,000	-	1,000
Total	<u>\$ 7,207,686</u>	<u>\$ 6,856,887</u>	<u>\$ 350,799</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 - INTERFUND TRANSACTIONS

- A. Advances for the fiscal year ended June 30, 2014, as reported on the fund statements, consist of the following:

<u>Advances in</u>	<u>Advances out</u>	<u>Amount</u>
	Special Revenue Funds:	
General Fund	Title I	\$ 1,738
General Fund	Title IIA	5,565
Special Revenue Funds:		
IDEA, Part B	General Fund	11,756
Title I	General Fund	48,892
Title IIA	General Fund	<u>2,239</u>
		<u>\$ 70,190</u>

The primary purpose of the advances is to cover costs in specific funds where expected funds were not received by June 30. Advances are expected to be repaid once the anticipated funds are received. The District repaid \$7,303 in advances outstanding at June 30, 2013, during 2014.

- B. Transfers for the fiscal year ended June 30, 2014, as reported on the fund statements, consist of the following:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Special Revenue Funds:		
Reeves Foundation Grant	General Fund	<u>\$ 591</u>

Transfers are used to move cash receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them and to use cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer was made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax receipts received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 receipts received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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.

The District receives property taxes from Tuscarawas County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 85,763,240	95.98	\$ 88,322,100	95.58
Public utility personal	<u>3,590,880</u>	<u>4.02</u>	<u>4,088,070</u>	<u>4.42</u>
Total	<u>\$ 89,354,120</u>	<u>100.00</u>	<u>\$ 92,410,170</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 62.60		\$ 62.20	

NOTE 7 - LONG-TERM OBLIGATIONS

School Improvement General Obligation Bonds – Series 2005

On April 26, 2005, the District issued general obligation bonds to provide funds for constructing a new elementary school building. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond issue are recorded as a disbursement in the debt service fund.

This original issue was comprised of both current interest bonds, par value \$6,655,000, and capital appreciation bonds, par value \$144,990. The interest rates on the current interest bonds range from 3.00% to 4.45%. The capital appreciation bonds matured on December 1, 2010 (effective interest 15.53%), December 1, 2011 (effective interest 15.53%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds was \$360,000. Interest payments on the current interest bonds are due on June 1 and December 1 of each year.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

On October 30, 2012, \$5,330,000 of the callable portion of the bonds were refunded. The balance of the refunded bonds at June 30, 2014, is \$5,330,000. This refunded debt is considered defeased (in-substance).

School Improvement Refunding General Obligation Bonds – Series 2012

On October 30, 2012, the District issued general obligation bonds to advance refund \$5,330,000 of the Series 2005 School Improvement General Obligation Bonds. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond issue are recorded as a disbursement in the debt service fund.

This issue was comprised of both current interest bonds, par value \$5,245,000, and capital appreciation bonds, par value \$84,999. The interest rates on the current interest bonds range from 1.50% to 3.00%. The capital appreciation bonds mature on December 1, 2019 (effective interest 27.40%), December 1, 2020 (effective interest 27.40%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$590,000. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2032.

The following is a schedule of activity for fiscal year 2014 on the Series 2005 and Series 2012 general obligation bonds:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Current interest bonds - Series 2005	\$ 380,000	\$ -	\$ (185,000)	\$ 195,000
Current interest refunding bonds - Series 2012	5,245,000	-	(60,000)	5,185,000
Capital appreciation refunding bonds - Series 2012	84,999	-	-	84,999
Total general obligation bonds	\$ 5,709,999	\$ -	\$ (245,000)	\$ 5,464,999

The following is a summary of the future debt service requirements to maturity for the Series 2005 and 2012 general obligation bonds:

Year Ended	General Obligation Bonds		
	Principal	Interest	Total
2015	\$ 265,000	\$ 118,597	\$ 383,597
2016	270,000	111,297	381,297
2017	280,000	105,797	385,797
2018	285,000	100,148	385,148
2019	295,000	95,085	390,085
2020-2024	984,999	942,564	1,927,563
2025-2029	1,635,000	290,757	1,925,757
2030-2033	1,450,000	83,019	1,533,019
Total	\$ 5,464,999	\$ 1,847,264	\$ 7,312,263

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the District contracted with Liberty Mutual for property insurance. Liberty Mutual also covers boiler and machinery with a \$1,000 deductible and inland marine coverage with a \$250 deductible.

Professional and general liability is protected by Liberty Mutual with a \$3,000,000 aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible. Vehicles are covered by Liberty Mutual and hold a \$100 deductible for comprehensive and \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

The District participates in a Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

The District participates in the Stark County Schools Council of Governments Health Benefit Plan (the "Council"), a risk sharing pool to provide medical/surgical benefits for employees. The District's insurance program for health care, through the Council, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the Council for monthly premiums, monthly stop-loss premiums and administrative charges. The District submits monthly payments for family plans and individual coverage to the Stark County Educational Service Center who serves as the fiscal agent for the Council. The premium is paid by the fund that pays the salary for the employee and is based on a rate determined by an actuary for the Council.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$79,787, \$76,137 and \$79,305, respectively; 87.09 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System of Ohio

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$303,911, \$300,539 and \$307,550, respectively; 83.19 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 (the latest information available) was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$853, \$930 and \$10,758, respectively; 87.09 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$4,629, \$4,301 and \$4,683 respectively; 87.09 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$23,378, \$23,118 and \$23,658, respectively; 83.19 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is party to legal proceedings. Management is of the opinion that the ultimate disposition of various claims and legal proceeds will not have a material effect, if any, on the financial condition of the District.

NOTE 12 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund receipt amounts, as defined by 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	108,205
Current year offsets	(133,566)
Current year qualifying expenditures	<u>(17,009)</u>
Total	\$ <u>(42,370)</u>
Cash balance carried forward to fiscal year 2015	<u>\$ -</u>



Dave Yost • Auditor of State

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

Strasburg-Franklin Local School District
Tuscarawas County
140 North Bodmer Avenue
Strasburg, Ohio 44680

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Strasburg-Franklin Local School District, Tuscarawas County, Ohio, (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2015, wherein we noted the District received an adverse opinion on their financial statements since their financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control. We consider finding 2014-002 to be a significant deficiency.

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, opining 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 matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2014-001.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 11, 2015

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Noncompliance

Ohio Rev. Code § 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 to the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38. Furthermore, the public offices shall give public notice that the financial report is available for public instruction.

Ohio Admin. Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We found that:

- The District did not report the financial activity of the District in accordance with general accepted accounting principles for fiscal year ending June 30, 2014. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.
- The District did not file the required financial report for fiscal year ending June 30, 2014 with the Auditor of State's Office within 60 days of fiscal year end.
- The District did not publish a notice indicating the financial reports were available for inspection.

The Board of Education should review the standards and ensure preparation of its financial statements in accordance with AICPA's Audit and Accounting Guide Audits of State and Local Governments. The Board of Education should ensure the financial statements are prepared in accordance with the Ohio Administrative Code and the Ohio Revised Code. The Board of Education is ultimately responsible for the filing of financial reports and should ensure the Treasurer files the required financial reports timely and a notice should be published in the local newspaper to notify the public the report is available for inspection. Since the District has determined not to follow generally accepted accounting principles, the Board of Education should formally approve the financial reporting method on an annual basis. Implementation of these procedures would help ensure accurate and timely financial statements are available to the District's community.

Official's Response: Due to cost savings, the Board of Education has decided not to do GAAP.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2014-002

Significant Deficiency

All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices.

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and periodically (at least monthly) reconcile them to the accounting records.

During our initial audit procedures, it was determined that the District's June 2014 bank reconciliation identified unsupported reconciling items of (\$658) and (\$424). The general and payroll checking bank account balances were more than the District's book balance. Based on an initial scan of the remaining bank reconciliations for fiscal year 2014, it was determined that unsupported reconciling items varied from \$4 to \$1,566 over the 12 month period.

We determined additional audit procedures were needed to verify the bank reconciliation information for all months of the audit period. After the Treasurer re-performed the reconciliations for the audit period and AOS verified the reconciliations, the unsupported variances by month for fiscal year 2014 were as follows: September and October 2013 (\$75), November 2013 (\$148), December 2013 (\$139), January 2014 (\$272), February 2014 (\$272), March 2014 (\$355), April 2014 (\$355), May 2014 (\$181), and June 2014 (\$419). Some of these variances included unsupported amounts that carried forward to the subsequent months. In all instances, the bank balances were higher than the book balances.

Several fiscal year 2014 adjustments will need to be made to the District's books to account for some of the reconciling items that were identified. These include:

- A \$2,023 net adjustment identified in the financial reporting comment of the management letter related to the posting of tax settlement receipts and expenditures, as well as the posting of the STRS/SERS deduction from the foundation settlement in March 2014.
- An \$800 adjustment related to a misposting of a receipt that was recorded in the system as \$1,999 but cleared the bank for \$1,199.
- A \$422 adjustment for a federal withholdings error that was identified and paid correctly but was recorded twice in the accounting system.

As a result, the risk that funds could be misappropriated or errors and omissions could go undetected is increased.

The District Treasurer should perform an all-inclusive bank reconciliation that clearly identifies the bank balances and each reconciling item that reduces or increases the bank balances to the District's balance presented on the Financial Report by Sum / Special Cost Center (FINSUM). Reconciling items should be listed individually and support should be maintained for all reconciling items noted.

All errors affecting the District's accounting system identified during the reconciliation process should be entered timely into the accounting system so that it may be appropriately updated. This will help strengthen the District's internal controls over the bank reconciliation process and help ensure errors or omissions are detected timely reducing the risk funds could be misappropriated.

STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2014
(Continued)

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

FINDING NUMBER 2014-002 (Continued)

Significant Deficiency (Continued)

Official's Response: The Treasurer has changed the way she was doing the bank reconciliation and corrected the items found. The Treasurer has sent back up for the correction. Also, there will be backup documentation for all reconciling items.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2013-001	Ohio Rev. Code §117.38 and Ohio Admin. Code § 117-2-03 - The District did not prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not corrected. See Finding Number 2014-001.
2013-002	Significant deficiency related to the District's bank reconciliation process. Bank reconciliations included unsupported reconciling items.	No	Not corrected. See Finding Number 2014-002.



Dave Yost • Auditor of State

STRASBURG- FRANKLIN LOCAL SCHOOL DISTRICT

TUSCARAWAS 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
JUNE 23, 2015**