



Dave Yost • Auditor of State



**FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fredericktown Local School District, Knox County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 School 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 School 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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, 2015, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Award Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Other Information*

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2016, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 6, 2016

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**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2015*  
*Unaudited*

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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, 2015. 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 2015 are as follows:

- Certificated and non-certificated employees received a 2 percent increase in base salary.
- The School District received \$200,000 for the Middle School 21<sup>st</sup> Century After School Program and \$200,000 for the High School 21<sup>st</sup> Century After School Program. These are five-year grants that will end June 30, 2017.
- The School District was also awarded \$351,335 for an Elementary Guidance Project. Fiscal year 2015 was year three of a three-year grant (this grant is a direct Federal grant with the grant time frame reflecting October 1 through September 30).

**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 position 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, 2015*  
*Unaudited*

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**Reporting the School District as a Whole**

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2015, within the limitations of cash basis accounting. The statement of net position 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 receipt sources such as property taxes.

In the Statement of Net Position 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, 2015  
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 position for fiscal year 2015 compared to fiscal year 2014 on a cash basis:

(Table 1)  
**Net Position**

	Governmental Activities		
	2015	2014	Change
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,909,717	\$4,556,790	\$352,927
Cash and Cash Equivalents with Fiscal Agents	2,570,796	2,302,287	268,509
Total Assets	<u>\$7,480,513</u>	<u>\$6,859,077</u>	<u>\$621,436</u>
<b>Net Position</b>			
Restricted for:			
Capital Projects	\$93,350	\$359,340	(\$265,990)
Debt Service	488,268	468,344	19,924
Other Purposes	588,793	585,394	3,399
Unrestricted	<u>6,310,102</u>	<u>5,445,999</u>	<u>864,103</u>
Total Net Position	<u>\$7,480,513</u>	<u>\$6,859,077</u>	<u>\$621,436</u>

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2015  
Unaudited

Table 2 shows the change in net position for fiscal year 2015 compared to fiscal year 2014 for governmental activities:

(Table 2)  
**Change in Net Position**

	Governmental Activities		
	2015	2014	Change
<b>Receipts</b>			
<i>Program Receipts:</i>			
Charges for Services and Sales	\$1,426,950	\$1,454,526	(\$27,576)
Operating Grants and Contributions	2,128,337	2,263,848	(135,511)
Capital Grants and Contributions	43,028	43,177	(149)
<b>Total Program Receipts</b>	<b>3,598,315</b>	<b>3,761,551</b>	<b>(163,236)</b>
<i>General Receipts:</i>			
Property Taxes	4,153,684	3,927,739	225,945
Grants and Entitlements	5,219,101	4,705,452	513,649
Interest	24,856	4,521	20,335
Other	86,121	86,672	(551)
<b>Total General Receipts</b>	<b>9,483,762</b>	<b>8,724,384</b>	<b>759,378</b>
<b>Total Receipts</b>	<b>13,082,077</b>	<b>12,485,935</b>	<b>596,142</b>
<b>Disbursements</b>			
<i>Instruction</i>			
Regular	5,092,933	4,772,561	(320,372)
Special	1,462,495	1,402,809	(59,686)
Vocational	141,737	154,265	12,528
Adult/Continuing	12,582	1,500	(11,082)
<i>Support Services:</i>			
Pupil	788,335	818,183	29,848
Instructional Staff	385,722	366,305	(19,417)
Board of Education	47,462	48,176	714
Administration	850,919	831,272	(19,647)
Fiscal	303,498	266,521	(36,977)
Business	28,388	26,910	(1,478)
Operation and Maintenance of Plant	786,877	640,524	(146,353)
Pupil Transportation	613,074	542,149	(70,925)
Central	93,560	116,729	23,169
Operation of Non Instructional Services	344,752	338,052	(6,700)
Extracurricular Activities	558,515	493,398	(65,117)
Capital Outlay	14,311	0	(14,311)
Debt Service	713,830	751,640	37,810
<b>Total Disbursements</b>	<b>12,238,990</b>	<b>11,570,994</b>	<b>(667,996)</b>
<b>Excess of Receipts Over Disbursements</b>	<b>843,087</b>	<b>914,941</b>	<b>(71,854)</b>
Special Item - OSFC Reimbursement	(221,651)	0	(221,651)
<b>Increase in Net Position</b>	<b>621,436</b>	<b>914,941</b>	<b>(293,505)</b>
Net Position Beginning of Year	6,859,077	5,944,136	914,941
<b>Net Position End of Year</b>	<b>\$7,480,513</b>	<b>\$6,859,077</b>	<b>\$621,436</b>

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
For the Year Ended June 30, 2015  
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 2015 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 step increases and a 2 percent increase in base salary.

**Governmental Activities**

If you look at the Statement of Activities on page 13, 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 receipts. 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> <u>2015</u>	<u>Net Cost of Service</u> <u>2015</u>	<u>Total Cost of Service</u> <u>2014</u>	<u>Net Cost of Service</u> <u>2014</u>
Instruction	\$6,709,747	\$4,415,492	\$6,331,135	\$3,940,922
Support Services:				
Pupil and Instructional Staff	1,174,057	705,730	1,184,488	679,176
Board of Education, Administration, Fiscal and Business	1,230,267	1,174,853	1,172,879	1,084,776
Operation and Maintenance of Plant	786,877	751,704	640,524	607,565
Pupil Transportation	613,074	582,026	542,149	515,136
Central	93,560	31,844	116,729	53,924
Operation of Non Instructional Services	344,752	(34,365)	338,052	(60,935)
Extracurricular Activities	558,515	285,250	493,398	237,239
Capital Outlay	14,311	14,311	0	0
Debt Service	713,830	713,830	751,640	751,640
Total Expenses	<u>\$12,238,990</u>	<u>\$8,640,675</u>	<u>\$11,570,994</u>	<u>\$7,809,443</u>

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2015*  
*Unaudited*

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**The School District's Funds**

Information about the School District's major funds starts on page 14. All governmental funds had total receipts of \$13,062,080 and disbursements and special item of \$12,709,153. The net change in fund balance for the fiscal year was an increase of \$352,927. The general fund had receipts of \$10,162,821 and disbursements of \$9,521,798. This surplus of \$641,023 is primarily due to an increase in receipts, mainly intergovernmental and property taxes receipts, despite an increase in disbursements. The bond retirement fund had receipts of \$564,542 and disbursements of \$544,618 resulting in a surplus of \$19,924.

**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 fiscal year 2015, the School District amended its general fund budget several times to allow for changes to the budget.

For the general fund, the final budget receipt estimate was \$9,477,968, above original budget estimates of \$9,042,540. Actual receipts were \$628,948 higher than the final estimate, due primarily to higher than anticipated property taxes and intergovernmental receipts.

The original appropriations estimate of \$10,194,138 was less than the final appropriations of \$10,386,938. Actual disbursements were only \$9,522,526, or \$864,412 less than anticipated. This \$864,412 difference is due to the fact that the School District did not spend what it anticipated in every disbursement 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, 2015, the School District's outstanding debt included \$5,531,753 in general obligation bonds issued for improvements to buildings and structures, \$436,363 in energy conservation notes and \$1,083,478 in capital leases pertaining to School District construction and band equipment. For further information regarding the School District's debt, refer to Note 10 to the basic financial statements.

**Current Issues**

The School District moved from Medical Mutual of Ohio to United Health Care for their medical network and moved from Self Funded Plans, Inc. to United Medical Resources for their Third Party Administrator. This change became effective November 1, 2012, and is saving the plan up to 9 percent on the payment of claims.

**Fredericktown Local School District**  
*Management's Discussion and Analysis*  
*For the Year Ended June 30, 2015*  
*Unaudited*

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The end of fiscal year 2013 marked the expiration of the teachers' three-year contract. A new three-year labor agreement was approved on June 11, 2013, with salary set at a 1 percent increase for year one and a 2 percent increase in years two and three. Minor concessions with the insurance plan and new evaluation tool also impacted the agreement. The end of fiscal year 2013 also marked the expiration of the classified employees' three-year contract. A three-year labor agreement was approved on June 11, 2013. The economic package contained in the contract provides for a 1 percent increase for the first year and a 3 percent increase in the second and third years. Minor concessions with the insurance plan were also a part of the new agreement.

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 21<sup>st</sup> Century After School Program utilizes three classrooms for middle school and high school students.

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, although property taxes did increase more than 5 percent in fiscal year 2015 mainly due to the increase in current agricultural use property tax values. 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 received an achievement grade of "B" on the 2013-2014 school year report card issued by the Ohio Department of Education. State rankings greatly improved as evidenced by value-added data and overall performance index. Committed to providing a top-notch educational experience for every student, the staff has embraced the Ohio Improvement Process as a means to make educational decisions using data. Teacher Based Teams (TBTs) meet weekly to review formative data and to plan next steps in instruction, remediation, and enrichment. With this approach, the dedicated staff at the Fredericktown Local School District will continue to improve the overall growth and achievement of our students. Our motto in Fredericktown is "Every Day, Everyone Learning and Adapting to Excel in a Changing World." 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 Heather Darnold, Treasurer at Fredericktown Local School District, 117 Columbus Road, Fredericktown, Ohio 43019 or e-mail at [hdarnold@fredschools.com](mailto:hdarnold@fredschools.com).

**Fredericktown Local School District**

*Statement of Net Position - Cash Basis*

*June 30, 2015*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,909,717
Cash and Cash Equivalents with Fiscal Agents	<u>2,570,796</u>
<i>Total Assets</i>	<u><u>\$7,480,513</u></u>
 <b>Net Position</b>	
Restricted for:	
Capital Projects	\$93,350
Debt Service	488,268
Other Purposes	588,793
Unrestricted	<u>6,310,102</u>
<i>Total Net Position</i>	<u><u>\$7,480,513</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, 2015*

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Position	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$5,092,933	\$988,705	\$548,205	\$0	(\$3,556,023)
Special	1,462,495	0	721,825	0	(740,670)
Vocational	141,737	522	29,950	0	(111,265)
Adult/Continuing	12,582	0	5,048	0	(7,534)
Support Services:					
Pupil	788,335	0	360,478	0	(427,857)
Instructional Staff	385,722	0	106,298	1,551	(277,873)
Board of Education	47,462	0	0	0	(47,462)
Administration	850,919	0	54,121	0	(796,798)
Fiscal	303,498	0	0	1,293	(302,205)
Business	28,388	0	0	0	(28,388)
Operation and Maintenance of Plant	786,877	0	20,628	14,545	(751,704)
Pupil Transportation	613,074	0	8,351	22,697	(582,026)
Central	93,560	0	58,774	2,942	(31,844)
Operation of Non-Instructional Services	344,752	164,458	214,659	0	34,365
Extracurricular Activities	558,515	273,265	0	0	(285,250)
Capital Outlay	14,311	0	0	0	(14,311)
Debt Service	713,830	0	0	0	(713,830)
<b>Totals</b>	<b>\$12,238,990</b>	<b>\$1,426,950</b>	<b>\$2,128,337</b>	<b>\$43,028</b>	<b>(8,640,675)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
					3,459,717
					197,359
					447,268
					49,340
Grants and Entitlements not Restricted to Specific Programs					5,219,101
					24,856
					86,121
<i>Total General Receipts</i>					9,483,762
Special Item - OSFC Reimbursement					(221,651)
<i>Total General Receipts and Special Item</i>					9,262,111
Change in Net Position					621,436
<i>Net Position Beginning of Year</i>					6,859,077
<i>Net Position End of Year</i>					<b>\$7,480,513</b>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2015*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	<u>\$3,792,573</u>	<u>\$488,268</u>	<u>\$628,876</u>	<u>\$4,909,717</u>
<b>Fund Balances</b>				
Restricted	\$0	\$488,268	\$682,143	\$1,170,411
Assigned	1,165,046	0	0	1,165,046
Unassigned (Deficit)	<u>2,627,527</u>	<u>0</u>	<u>(53,267)</u>	<u>2,574,260</u>
<i>Total Fund Balances</i>	<u>\$3,792,573</u>	<u>\$488,268</u>	<u>\$628,876</u>	<u>\$4,909,717</u>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Reconciliation of Total Governmental Fund Cash Balances to  
Net Position of Governmental Cash Activities  
June 30, 2015*

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**Total Governmental Funds Balances** \$4,909,717

*Amounts reported for governmental activities in the  
statement of net position 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 position. 2,570,796

*Net Position of Governmental Activities* \$7,480,513

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, 2015*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property Taxes	\$3,459,717	\$447,268	\$246,699	\$4,153,684
Intergovernmental	5,556,689	117,274	1,715,978	7,389,941
Interest	4,684	0	175	4,859
Tuition and Fees	969,967	0	0	969,967
Extracurricular Activities	70,262	0	201,928	272,190
Contributions and Donations	0	0	525	525
Charges for Services	4,704	0	164,458	169,162
Rentals	15,631	0	0	15,631
Miscellaneous	81,167	0	4,954	86,121
<i>Total Receipts</i>	<u>10,162,821</u>	<u>564,542</u>	<u>2,334,717</u>	<u>13,062,080</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,660,508	0	558,856	5,219,364
Special	1,235,029	0	274,109	1,509,138
Vocational	132,607	0	11,060	143,667
Adult/Continuing	0	0	12,582	12,582
Support Services:				
Pupil	421,869	0	383,482	805,351
Instructional Staff	264,547	0	123,913	388,460
Board of Education	47,462	0	0	47,462
Administration	812,367	0	57,510	869,877
Fiscal	293,075	10,369	5,680	309,124
Business	28,388	0	0	28,388
Operation and Maintenance of Plant	656,804	0	131,472	788,276
Pupil Transportation	543,576	0	86,358	629,934
Central	21,037	0	72,523	93,560
Operation of Non-Instructional Services	0	0	355,663	355,663
Extracurricular Activities	344,175	0	214,340	558,515
Capital Outlay	0	0	14,311	14,311
Debt Service:				
Principal Retirement	40,476	275,000	66,000	381,476
Interest and Fiscal Charges	19,878	259,249	53,227	332,354
<i>Total Disbursements</i>	<u>9,521,798</u>	<u>544,618</u>	<u>2,421,086</u>	<u>12,487,502</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	641,023	19,924	(86,369)	574,578
<b>Special Item</b>				
OSFC Reimbursement	<u>0</u>	<u>0</u>	<u>(221,651)</u>	<u>(221,651)</u>
<i>Net Change in Fund Balances</i>	641,023	19,924	(308,020)	352,927
<i>Fund Balances Beginning of Year</i>	<u>3,151,550</u>	<u>468,344</u>	<u>936,896</u>	<u>4,556,790</u>
<i>Fund Balances End of Year</i>	<u><u>\$3,792,573</u></u>	<u><u>\$488,268</u></u>	<u><u>\$628,876</u></u>	<u><u>\$4,909,717</u></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, 2015*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$352,927
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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.

268,509

*Change in Net Position of Governmental Activities*

\$621,436

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, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$3,055,474	\$3,202,768	\$3,459,717	\$256,949
Intergovernmental	5,018,095	5,260,000	5,556,689	296,689
Interest	2,862	3,000	4,684	1,684
Tuition and Fees	815,679	855,000	924,156	69,156
Extracurricular Activities	51,517	54,000	60,168	6,168
Charges for Services	4,484	4,700	4,704	4
Rentals	15,264	16,000	15,631	(369)
Miscellaneous	69,165	72,500	81,167	8,667
<i>Total Receipts</i>	<u>9,032,540</u>	<u>9,467,968</u>	<u>10,106,916</u>	<u>638,948</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	4,712,742	4,802,096	4,649,731	152,365
Special	1,282,831	1,307,117	1,235,129	71,988
Vocational	151,720	154,592	132,216	22,376
<b>Support Services:</b>				
Pupil	486,151	495,355	422,034	73,321
Instructional Staff	316,452	322,443	281,523	40,920
Board of Education	70,336	71,668	47,462	24,206
Administration	905,232	922,369	813,917	108,452
Fiscal	331,433	337,708	293,075	44,633
Business	42,619	43,426	34,920	8,506
Operation and Maintenance of Plant	770,634	785,223	657,107	128,116
Pupil Transportation	678,212	691,051	543,626	147,425
Central	24,266	24,725	21,037	3,688
Operation of Non-Instructional Services	981	1,000	0	1,000
Extracurricular Activities	351,088	357,734	330,395	27,339
<b>Debt Service:</b>				
Principal Retirement	39,834	40,484	40,476	8
Interest and Fiscal Charges	19,607	19,947	19,878	69
<i>Total Disbursements</i>	<u>10,184,138</u>	<u>10,376,938</u>	<u>9,522,526</u>	<u>854,412</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,151,598)</u>	<u>(908,970)</u>	<u>584,390</u>	<u>1,493,360</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(5,000)	(5,000)	0	5,000
Advances In	10,000	10,000	0	(10,000)
Advances Out	(5,000)	(5,000)	0	5,000
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,151,598)	(908,970)	584,390	1,493,360
<i>Fund Balance Beginning of Year</i>	2,960,979	2,960,979	2,960,979	0
Prior Year Encumbrances Appropriated	<u>109,205</u>	<u>109,205</u>	<u>109,205</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,918,586</u>	<u>\$2,161,214</u>	<u>\$3,654,574</u>	<u>\$1,493,360</u>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Fund Net Position - Cash Basis*  
*Internal Service Fund*  
*June 30, 2015*

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	<u>Insurance</u>
<b>Assets</b>	
Cash and Cash Equivalents with Fiscal Agents	<u>\$2,570,796</u>
<b>Net Position</b>	
Unrestricted	<u>\$2,570,796</u>

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Receipts, Disbursements  
and Changes in Net Position - Cash Basis  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2015*

	Insurance
<b>Operating Receipts</b>	
Charges for Services	\$2,409,969
<b>Operating Disbursements</b>	
Purchased Services	522,804
Claims	1,638,653
<i>Total Operating Disbursements</i>	2,161,457
<i>Operating Income</i>	248,512
<b>Non-Operating Receipts</b>	
Interest	19,997
<i>Change in Net Position</i>	268,509
<i>Net Position Beginning of Year</i>	2,302,287
<i>Net Position End of Year</i>	\$2,570,796

See accompanying notes to the basic financial statements

**Fredericktown Local School District**  
*Statement of Fiduciary Assets and Liabilities - Cash Basis*  
*Agency Fund*  
*June 30, 2015*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$30,562</u>
<b>Liabilities</b>	
Due to Students	<u>\$30,562</u>

See accompanying notes to the basic financial statements

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## **Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### **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 53 classified employees and 81 certificated employees who provide services to 1,257 students and other community members. The School District currently operates 3 instructional buildings and 2 support buildings.

#### ***Primary Government***

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the 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 and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has no component units.

#### ***Other Organizations***

The School District participates in the Metropolitan Educational Technology Association, a jointly governed organization and the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Jefferson Health Plan, both insurance purchasing pools. These organizations are presented in Note 15 to the basic financial statements.

### **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

## Fredericktown Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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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. 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 position 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 position 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 position 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 Statement*** 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.

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 as follows:

## Fredericktown Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**General Fund** – The general fund is used to account for and report all financial resources, except those required to be accounted for and reported 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.

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.

## **Fredericktown Local School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015*

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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 2015, 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, 2015.

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 2015 amounted to \$4,684 which includes \$931 assigned from other School District funds.

The School District participates in the Jefferson Health Plan insurance consortium for self-insurance. These monies are reflected on the statement of net position 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.

## **Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### ***Interfund Receivables/Payables***

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities 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 Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

### ***Pensions***

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

### ***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 is reported at inception. Lease payments are reported when paid.

### ***Net Position***

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes 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 position are available.

### ***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the School District 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.

## **Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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***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. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or State statute. State statute authorizes the Treasurer to assign fund balance to purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education assigned fund balance for public school support and to cover a gap between estimated revenue and appropriations in the fiscal year 2016 appropriated budget.

***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.

### ***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2015, the School District returned a portion of the money that had been received from the Ohio School Facilities Commission in prior years. The full amount of the money was not needed to complete the building project. The reimbursement is recorded as a special item.

### **Note 3 – 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 position/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 4 – 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 between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$49,439. Also, the uniform school supplies, latchkey, and public school support funds are included with the general fund on the statement of assets and fund balances, as they do not have a committed or restricted receipt source. The balances of these funds are \$59,667, \$13,224, and \$15,669, respectively.

**Note 5 – 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	Other Governmental Funds	Total
<i><b>Restricted for</b></i>				
Food Service Operations	\$0	\$0	\$190,475	\$190,475
Other Grants	0	0	11,186	11,186
Classroom Maintenance	0	0	279,038	279,038
Athletics and Music	0	0	29,064	29,064
Special Education	0	0	79,030	79,030
Debt Service Payments	0	488,268	0	488,268
Capital Improvements	0	0	93,350	93,350
<i>Total Restricted</i>	<u>0</u>	<u>488,268</u>	<u>682,143</u>	<u>1,170,411</u>
<i><b>Assigned to</b></i>				
Fiscal Year 2016 Appropriations	1,099,076	0	0	1,099,076
Purchases on Order:				
Student Instruction	23,304	0	0	23,304
Support Services	25,576	0	0	25,576
Extracurricular Activities	1,421	0	0	1,421
Public School Support	15,669	0	0	15,669
<i>Total Assigned</i>	<u>1,165,046</u>	<u>0</u>	<u>0</u>	<u>1,165,046</u>
<i>Unassigned (Deficit)</i>	<u>2,627,527</u>	<u>0</u>	<u>(53,267)</u>	<u>2,574,260</u>
<i>Total Fund Balances</i>	<u><u>\$3,792,573</u></u>	<u><u>\$488,268</u></u>	<u><u>\$628,876</u></u>	<u><u>\$4,909,717</u></u>

## **Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### **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.

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.

## Fredericktown Local School District

*Notes to the Basic Financial Statements  
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At June 30, 2015, the School District's self-insurance internal service fund had a balance of \$2,570,796 with the Jefferson Health Plan, 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 Jefferson Health 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 Jefferson Health 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, \$303,166 of the School District's bank balance of \$4,806,965 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 105 percent of the deposits being secured.

**Investments** As of June 30, 2015, the School District only had an investment of \$481,101 in STAR Ohio, the State Treasurer's Investment Pool. This investment has an average maturity of 53.4 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** STAR Ohio carries a rating of AAAM by Standard and Poor's. 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.

### **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 and public utility property located in the School District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1,

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

2014, on the assessed values as of January 1, 2014, 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 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, 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 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, 2015, are available to finance fiscal year 2015 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 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$139,052,600	95.87%	\$157,086,240	96.11%
Public Utility Personal	5,991,220	4.13	6,362,130	3.89
Total	<u>\$145,043,820</u>	<u>100.00%</u>	<u>\$163,448,370</u>	<u>100.00%</u>

Full Tax Rate per \$1,000 of assessed valuation	\$48.26	\$47.32
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**Note 8 – Defined Benefit Pension Plans**

***Net Pension Liability***

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
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long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

***Plan Description – School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

## **Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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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 advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$169,684 for fiscal year 2015.

### ***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with 5 years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1 percent July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$622,231 for fiscal year 2015.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,397,318	\$9,953,404	\$12,350,722
Proportion of the Net Pension Liability	0.047369%	0.04092100%	

***Actuarial Assumptions – SERS***

SERS’ total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent, net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u><u>100.00 %</u></u>	

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
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**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$3,420,261	\$2,397,318	\$1,536,935

**Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and not set back for age 90 and above. Females younger than age 80 are set back four years, set back one year from age 80 through 89, and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$14,249,382	\$9,953,404	\$6,320,451

**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, 2015, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 9 – Postemployment Benefits**

***School Employees Retirement System***

Health Care Plan Description – The School District contributes to the School Employees Retirement System (SERS) Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS’ Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS’ participation in Medicare programs. 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.

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. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer’s SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the School District’s surcharge obligation was \$25,749.

The School District’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$36,306, \$24,278, and \$22,027, respectively. The full amount has been contributed for fiscal years 2015, 2014, and 2013.

***State Teachers Retirement System***

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. 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 can be obtained by visiting [www.strsoh.org](http://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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
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deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$43,740, and \$40,562, respectively. The full amount has been contributed for fiscal years 2015, 2014, and 2013.

**Note 10 – Debt**

Changes in long-term obligations of the School District during fiscal year 2015 were as follows:

	Principal Outstanding 6/30/2014	Additions	Reductions	Principal Outstanding 6/30/2015	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
School Improvement Bonds					
Current Issue Serial Bonds	\$1,435,000	\$0	(\$255,000)	\$1,180,000	\$270,000
Unamortized Premium	32,415	0	(6,483)	25,932	0
<b>Total School Improvement Bonds</b>	<b>1,467,415</b>	<b>0</b>	<b>(261,483)</b>	<b>1,205,932</b>	<b>270,000</b>
Refunding School Bonds					
Current Issue Serial Bonds	2,610,000	0	(20,000)	2,590,000	25,000
Capital Appreciation Bonds	30,000	0	0	30,000	0
Accretion on Capital Appreciation Bonds	99,026	27,438	0	126,464	0
Term Bonds	1,505,000	0	0	1,505,000	0
Unamortized Premium	207,088	0	(14,282)	192,806	0
Unamortized Loss	(127,277)	0	8,828	(118,449)	0
<b>Total Refunding School Bonds</b>	<b>4,323,837</b>	<b>27,438</b>	<b>(25,454)</b>	<b>4,325,821</b>	<b>25,000</b>
<b>Total General Obligation Bonds</b>	<b>5,791,252</b>	<b>27,438</b>	<b>(286,937)</b>	<b>5,531,753</b>	<b>295,000</b>
<b>Other Long-Term Obligations</b>					
2010 Energy Conservation Notes	471,361	0	(34,998)	436,363	35,471
Capital Leases	1,224,678	0	(141,200)	1,083,478	74,478
<b>Total Other Long-Term Obligations</b>	<b>1,696,039</b>	<b>0</b>	<b>(176,198)</b>	<b>1,519,841</b>	<b>109,949</b>
<b>Total Governmental Activities Long-Term Liabilities</b>	<b>\$7,487,291</b>	<b>\$27,438</b>	<b>(\$463,135)</b>	<b>\$7,051,594</b>	<b>\$404,949</b>

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 and have 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 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.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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, 2015, is \$365,000. The accretion recorded for 2015 was \$27,438, for a total outstanding bond liability of \$156,464 at June 30, 2015.

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.

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.

All general obligation bonds will be paid from property taxes from the bond retirement fund. Energy conservation notes will be paid from the general fund. The building capital lease will be paid from the building capital projects fund. The capital leases for band equipment and copiers will be paid from the general fund.

The School District's overall debt margin was \$9,893,621 with an unvoted debt margin of \$163,448 at June 30, 2015. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$295,000	\$178,956	\$0	\$0	\$0	\$63,962
2017	310,000	161,615	0	0	0	63,962
2018	330,000	143,210	0	0	0	63,962
2019	345,000	123,772	0	0	0	63,962
2020	0	113,832	30,000	335,000	0	63,962
2021-2025	2,025,000	331,029	0	0	0	319,810
2026-2029	465,000	41,572	0	0	1,505,000	129,837
Totals	<u>\$3,770,000</u>	<u>\$1,093,986</u>	<u>\$30,000</u>	<u>\$335,000</u>	<u>\$1,505,000</u>	<u>\$769,457</u>

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

Principal and interest requirements to retire long-term notes outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30	Energy Conservation Notes	
	Principal	Interest
2016	\$35,471	\$19,084
2017	37,118	17,436
2018	38,789	15,767
2019	40,534	14,021
2020	42,325	12,229
2021-2025	242,126	33,491
Total	<u>\$436,363</u>	<u>\$112,028</u>

Two capital leases for copiers were replaced in fiscal year 2015 by new agreements for copiers in which the School District makes monthly payments on a per-copy basis. Since the original leases were canceled before the original maturity of fiscal year 2016, and those copiers were returned, there is no obligation remaining. The obligations relating to these capital leases in the amounts of \$38,397 and \$31,325 were shown as reductions on the schedule of changes in long-term obligations.

**Note 11 – Capital Leases**

The capital lease obligation relates to 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, 2015.

Year Ending June 30,	Amount
2016	\$122,453
2017	115,201
2018	114,938
2019	115,519
2020	115,923
2021-2025	581,362
2026-2027	233,012
Total minimum lease payments	1,398,408
Less: Amount representing interest	<u>(314,930)</u>
Present Value of Minimum Lease Payments	<u>\$1,083,478</u>

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 12 – Contingencies**

***Grants***

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. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2015, if applicable, cannot be determined at this time.

***School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015, Foundation funding for the School District; therefore, any financial statement impact is not determinable at this time.

***Litigation***

As of June 30, 2015, the School District was not party to any legal proceedings.

**Note 13 – 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 2015, the School District contracted with the Ohio School Plan for various types of insurance as follows:

Type of Coverage	Coverage Amount
Property (Replacement Cost)	\$47,278,868
General Liability:	
Aggregate	5,000,000
Per Occurrence	3,000,000
Auto Liability	3,000,000
Employers' Liability (Ohio Stop Gap)	3,000,000
Fiduciary Liability Coverage	3,000,000
Legal Liability Coverage	3,000,000
Violence Coverage	1,000,000

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

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**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 at June 30, 2015, of \$192,143, 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. 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>
2014	\$2,302,287	\$344,972
2015	2,570,796	192,143

**Workers' Compensation**

For fiscal year 2015, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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 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. The School District made expenditures in a prior fiscal year that were related to an Ohio School Facilities Commission project; these expenditures are allowed to be carried forward as a negative balance in future fiscal years.

	<u>Capital Improvements</u>
Set-aside Balances as of June 30, 2014	(\$1,145,346)
Current Year Set-aside Requirement	207,135
Current Year Offsets	0
Total	<u>(\$938,211)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$938,211)</u>
Set-aside Balance as of June 30, 2015	<u>\$0</u>

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 15 – Jointly Governed Organizations and Public Entity Pools**

***Jointly Governed Organization***

The School District is a participant in the Metropolitan Educational Technology Association (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and non-members innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. The School District paid \$47,468 to META during fiscal year 2015 for services. Financial information can be obtained from Scott Armstrong, CFO, 100 Executive Drive, Marion, Ohio 43302.

***Insurance Purchasing Pools***

***Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (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.

***Jefferson Health Plan***

The School District participates in the Jefferson Health Plan, A risk-sharing, claims servicing, and insurance purchasing pool composed of ninety-one members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plan's 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.

**Fredericktown Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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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 United Medical Resources.

**Note 16 – Interfund Balances**

At June 30, 2015, the general fund had an unpaid interfund cash advance, in the amount of \$10,000, for short-term loans made to the Race to the Top special revenue fund pending the receipt of grant money that will be used to repay the loan.

**Note 17 – Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General	\$49,439
Other Governmental Funds	<u>89,514</u>
Total	<u><u>\$138,953</u></u>

**FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education</i>		
Child Nutrition Cluster		
Non-Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 22,463
Cash Assistance:		
School Breakfast Program	10.553	47,245
National School Lunch Program	10.555	160,726
Special Milk Program for Children	10.556	2,479
Total Child Nutrition Cluster		<u>232,913</u>
Total U.S. Department of Agriculture		<u><b>232,913</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b>Direct Program:</b>		
Elementary and Secondary School Counseling Program	84.215E	379,008
<i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	339,586
Special Education Grants to States	84.027	270,827
Race to the Top	84.395	3,358
Improving Teacher Quality State Grants	84.367	47,701
Twenty-First Century Community Learning Center	84.287	365,480
Rural Education	84.358	<u>9,555</u>
Total U.S. Department of Education		<u><b>1,415,515</b></u>
<b>Total Federal Awards Expenditures</b>		<u><b>\$ 1,648,428</b></u>

*The accompanying notes are an integral part of this schedule.*

**FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at the fair value. The School 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 AUDITOR'S 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, 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 governmental activities, each major fund, and the aggregate remaining fund information of the Fredericktown Local School District, Knox County, Ohio (the School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 6, 2016, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School 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 School 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 School 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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the School 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 2015-001.

***School District's Response to Findings***

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

***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 School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 6, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH 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:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Fredericktown Local School District, Knox County, Ohio, (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal programs.

### ***Management's Responsibility***

The School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Fredericktown Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

***Report on Internal Control Over Compliance***

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 6, 2016

FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.215E – Elementary School Counseling Program CFDA #10.553, 10.555, and 10.556 – Child Nutrition Cluster
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015  
(Continued)

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

**FINDING NUMBER 2015-001**

**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 on the form utilized by the public office. Ohio Administrative Code §117-2-03 further clarifies the requirements of the Ohio Rev. Code §117.38.

**Ohio Admin. Code §117-2-03(B)** requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School 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 Rev. Code §117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School 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 School District of \$8,000 per year. The School District continues to monitor, update, and track capital assets. Local Government Services continue to assist with the GAAP look-a-like reports and the Management and Discussion Analysis.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**FREDERICKTOWN LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	ORC Section 117.38 – Annual financial report not prepared in accordance with generally accepted accounting principles.	No	Reissued as Finding 2015-001
2014-002	Elementary School Counseling Program expenditures exceeded the four percent limit on administrative costs.	Yes	

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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  
AUGUST 2, 2016