

Fremont City School District
Sandusky County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Education
Fremont City School District
500 West State Street, Suite A
Fremont, Ohio 43420

We have reviewed the *Independent Auditor's Report* of the Fremont City School District, Sandusky County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fremont City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 17, 2017

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Fremont City School District
Sandusky County, Ohio

For the Fiscal Year Ended June 30, 2016
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**Fremont City School District
Sandusky County, Ohio**

*For the Fiscal Year Ended June 30, 2016
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December 27, 2016

The Board of Education
Fremont City School District
500 West State Street Suite A
Fremont, OH 43420

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont City School District, Sandusky County, Ohio, (the School District) as of and for the year ended June 30, 2016, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont City School District, Sandusky County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the School District's Proportionate Share of the Net Pension Liability, and the Schedule of the School District Contributions on pages 5-14, 68, and 69, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 School District's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

The discussion and analysis of Fremont City School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. 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 notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2016 are as follows:

- Net position of governmental activities increased \$3,633,041 from 2015.
- General revenues accounted for \$40,555,019 in revenue or 81.8% of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest accounted for \$8,994,315 or 18.2 of total revenues of \$49,549,334.
- The School District had \$45,916,293 in expenses related to governmental activities; only \$8,994,315 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$40,555,019 were adequate to provide for these programs.
- At the end of the current fiscal year the governmental funds reported a combined ending fund balance of \$22,924,965, an increase of \$1,425,459 from the prior fiscal year.
- During the year, the School District issued refunding general obligation bonds in the amount of \$7,165,000 and \$7,499,935.

Using the Basic Financial Statements

This annual report consists of a series of financial statements, notes to those statements and the required supplementary information. The statements are organized so the reader can understand the School District as a financial whole, or as an entire operating entity.

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

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

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 2016. These statements include all assets, liabilities, deferred inflows and outflows of resources using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net position and changes in this position. This change in net position is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net position and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the general fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of the funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Funds - Proprietary funds have historically operated as enterprise and internal service funds using the same basis of accounting as business-type activities. The internal service fund accounts for self-insurance for health insurance coverage and is reported separately as the School District's only proprietary fund.

Fremont City School District
Sandusky County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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 government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Over time, net position can serve as a useful indicator of a government's financial position. During fiscal year 2016, the School District had an increase in net position of \$3,633,041.

Net investment in capital assets reported on the government-wide statements represents a portion of the School District's total net position. Capital assets include land and land improvements, buildings, equipment, vehicles and construction in progress and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$6,631,498, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$2,782,054 or 41.9% is restricted for capital projects; \$887,736 or 13.4% is restricted for debt service payment; and \$2,961,708 or 44.7%, is restricted for other purposes. The remaining balance of net position of \$(41,673,059) is unrestricted.

Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to fiscal year 2015.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

**Table 1
Net Position**

| | Governmental Activities | |
|---|-------------------------|------------------------|
| | 2016 | 2015 |
| Assets: | | |
| Current and other assets | \$ 40,224,273 | \$ 38,878,788 |
| Capital assets, net | 31,170,913 | 30,975,662 |
| <i>Total assets, net</i> | <u>71,395,186</u> | <u>69,854,450</u> |
| Deferred outflows of resources: | | |
| Deferred charge on refunding | 1,393,826 | - |
| Pension | 6,566,505 | 3,795,184 |
| <i>Total deferred outflows of resources</i> | <u>7,960,331</u> | <u>3,795,184</u> |
| Liabilities: | | |
| Current and other liabilities | 5,588,256 | 5,665,428 |
| Long-term liabilities: | | |
| Due within one year | 1,231,609 | 1,114,841 |
| Due in more than one year | | |
| Net pension liability | 59,336,447 | 51,382,334 |
| Other amounts | 19,541,033 | 19,684,425 |
| <i>Total liabilities</i> | <u>85,697,345</u> | <u>77,847,028</u> |
| Deferred inflows of resources: | | |
| Property taxes | 9,699,955 | 10,120,846 |
| Pension | 3,948,794 | 9,305,378 |
| <i>Total deferred inflows of resources</i> | <u>13,648,749</u> | <u>19,426,224</u> |
| Net Position: | | |
| Net investment in capital assets | 15,050,984 | 14,574,212 |
| Restricted | 6,631,498 | 7,554,729 |
| Unrestricted | (41,673,059) | (45,752,559) |
| <i>Total net position</i> | <u>\$ (19,990,577)</u> | <u>\$ (23,623,618)</u> |

The School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position. The School District's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for its proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. The net pension liability is the largest single liability reported by the School District at June 30, 2016.

Table 2 reflects the changes in net position for fiscal year 2016 and 2015.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

**Table 2
Change in Net Position**

| | Governmental Activities <u>2016</u> | Governmental Activities <u>2015</u> |
|---|---|---|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 1,899,791 | \$ 2,015,091 |
| Operating grants, contributions, and interest | 7,094,524 | 5,488,676 |
| Capital grants and contributions | - | 1,427 |
| General revenues: | | |
| Property taxes | 13,803,106 | 13,301,914 |
| Income taxes | 7,857,167 | 7,524,767 |
| Grants and entitlements | 18,508,827 | 17,892,931 |
| Payment in lieu of taxes | 28,720 | 44,320 |
| Interest | 229,837 | 90,632 |
| Miscellaneous | 127,362 | 82,489 |
| <i>Total revenues</i> | <u>49,549,334</u> | <u>46,442,247</u> |
| Expenses: | | |
| Instruction: | | |
| Regular | 19,567,973 | 19,315,996 |
| Special | 6,004,049 | 5,980,697 |
| Vocational | 12,643 | 4,717 |
| Other | 290,599 | 183,731 |
| Support services: | | |
| Pupils | 2,772,921 | 2,769,135 |
| Instructional staff | 1,508,524 | 1,607,191 |
| Board of education | 45,064 | 57,527 |
| Administration | 3,538,456 | 3,368,264 |
| Fiscal | 851,045 | 838,659 |
| Business | 167,109 | 162,152 |
| Operation of maintenance of plant | 4,440,573 | 4,205,904 |
| Pupil transportation | 1,562,201 | 1,642,563 |
| Central | 677,065 | 699,414 |
| Operation of non-instructional services | 2,665,185 | 2,306,162 |
| Extracurricular services | 1,025,318 | 1,113,543 |
| Interest and fiscal charges | 787,568 | 846,895 |
| Intergovernmental | - | 874,795 |
| <i>Total expenses</i> | <u>45,916,293</u> | <u>45,977,345</u> |
| <i>Change in net position</i> | <u>\$ 3,633,041</u> | <u>\$ 464,902</u> |

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

Change in Net Position

Governmental Activities - The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases. Property taxes made up 27.9 percent of total revenues for governmental activities for the School District in fiscal year 2016. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receives additional grant and entitlement funds to help offset some operating costs. The School District has an income tax which is also a critical revenue used to support operations. For 2016, this revenue amounted to 15.9 percent of total revenues. Program revenues represented 18.2 percent of total revenues for fiscal year 2016. Program revenues generally represent tuition and fees, charges for extracurricular activities, and food service sales. As stated previously, general revenues were 81.8 percent of total revenues for fiscal year 2016, dependence on tax resources and unrestricted grants and entitlements, primarily State foundation resources, will continue to be the primary support for School District operations.

Program expenses for 2016 decreased \$61,052 or 0.1 percent over 2015. This decrease is not related to any one item.

The major program expenses for governmental activities are for instruction, which in 2016, accounted for 56.4 percent of all governmental expenses. Other programs which support the instruction process, including pupils support, instructional staff, and pupil transportation account for 12.7 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, of 9.7 percent.

As noted earlier, the program costs for fiscal year 2016 are comparable to the prior fiscal year with a 0.1 percent decrease and the amount of program revenues provided to off-set these expenses increased 19.8 percent. With these increases the School District is reporting an increase of \$3,633,041 in net position at fiscal year end.

The non-instructional services program received a significant amount of program revenue. These revenues consist of cafeteria sales and state and federal subsidies for cafeteria operations as well as State monies received by the School District on behalf of the four parochial schools within the School District's boundaries.

In the prior fiscal year, the School District implemented the new accounting standard for pension. As a result of implementing the new accounting standard, the School District is reporting a significant net pension liability and related deferred inflows of resources, which have a negative effect on net position. In addition, the School District is reporting deferred outflows of resources and a reduction of expenses related to pension for this fiscal year, which have a positive impact on net position. This expense amount is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the School District's net position, additional information is presented below.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Net position | \$ (19,990,577) | \$ (23,623,618) |
| Deferred outflows - pension | (6,566,505) | (3,795,184) |
| Deferred inflows - pension | 3,948,794 | 9,305,378 |
| Net pension liability | <u>59,336,447</u> | <u>51,382,334</u> |
| Net position without new standard | <u>\$ 36,728,159</u> | <u>\$ 33,268,910</u> |
| | | |
| Impact of new standard on net position end of year | \$ (56,718,736) | \$ (56,892,528) |

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's only major fund is the general fund. Overall fund balances increased for the current fiscal year. This increase was most significant in the general fund.

**Table 3
Fund Balances**

| | <u>Fund Balance</u> <u>June 30, 2016</u> | <u>Fund Balance</u> <u>June 30, 2015</u> | <u>Increase/</u> <u>(Decrease)</u> | <u>Percent</u> <u>Change</u> |
|--------------------|---|---|---------------------------------------|---------------------------------|
| General | \$ 16,277,201 | \$ 13,822,146 | \$ 2,455,055 | 17.76 |
| Other governmental | <u>6,647,764</u> | <u>7,677,360</u> | <u>(1,029,596)</u> | (13.41) |
| Total | <u>\$ 22,924,965</u> | <u>\$ 21,499,506</u> | <u>\$ 1,425,459</u> | |

The School District's general fund revenues increased \$2,102,268 and expenditures decreased \$349,753 from 2015. The most significant changes in revenues were an increase in income taxes, and intergovernmental over the prior year. Total expenditures decreased mainly in the area of instructional services.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

**Table 4
Change in Financial Activities for the General Fund**

| | 2016 <u>Amount</u> | 2015 <u>Amount</u> | Increase/ (Decrease) | Percent <u>Change</u> |
|---|-----------------------|-----------------------|-------------------------|--------------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 11,988,953 | \$ 11,684,419 | \$ 304,534 | 2.61 |
| Income tax | 7,857,167 | 7,524,767 | 332,400 | 4.42 |
| Intergovernmental | 19,812,378 | 18,485,805 | 1,326,573 | 7.18 |
| Interest | 229,837 | 90,632 | 139,205 | 153.59 |
| Tuition and fees | 1,000,997 | 1,015,222 | (14,225) | (1.40) |
| Extracurricular activities | 170,141 | 149,828 | 20,313 | 13.56 |
| Gifts and donations | 20,481 | 9,695 | 10,786 | 111.25 |
| Charges for service | 36,865 | 43,165 | (6,300) | (14.60) |
| Rent | 24,021 | 29,024 | (5,003) | (17.24) |
| Payment in lieu of taxes | 28,720 | 44,320 | (15,600) | (35.20) |
| Miscellaneous | <u>149,342</u> | <u>139,757</u> | <u>9,585</u> | 6.86 |
| Total | <u>\$ 41,318,902</u> | <u>\$ 39,216,634</u> | <u>\$ 2,102,268</u> | |
| <u>Expenditures:</u> | | | | |
| Instruction | 23,676,326 | 24,187,763 | (511,437) | (2.11) |
| Support services | 14,405,376 | 13,924,024 | 481,352 | 3.46 |
| Operation of non-instructional services | 1,711 | 1,106 | 605 | 54.70 |
| Extracurricular activities | 761,489 | 826,564 | (65,075) | (7.87) |
| Capital outlay | 18,798 | 97,127 | (78,329) | (80.65) |
| Intergovernmental | <u>-</u> | <u>176,869</u> | <u>(176,869)</u> | - |
| Total | <u>\$ 38,863,700</u> | <u>\$ 39,213,453</u> | <u>\$ (349,753)</u> | |

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.

For the general fund, the final budget basis revenues and other financing sources estimate was \$40,584,155, which was higher than the original budget estimate of \$39,521,099. The \$1,063,056 difference was primarily due to an increase in intergovernmental revenue projections. The actual revenues and other sources received were \$40,472,647, which was \$951,548 more than originally anticipated. This increase was most notably due to higher than anticipated intergovernmental revenues.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

The original expenditures and other financing uses estimate of \$40,297,182 was revised over the course of the fiscal year. The final budgeted expenditures and other financing uses were \$40,299,682, which was an increase of \$2,500 or 0.01 percent over the original budget. This increase is not attributed to any one specific item. Actual expenditures, including encumbrances and other financing uses were under budget by \$1,216,291 or 3.02 percent. This variance is not attributable to any one specific event but due to conservative spending.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$31,170,913 invested in various capitalized assets, net of depreciation. The table below shows fiscal year 2016 balances compared to fiscal year 2015.

**Table 5
Capital Assets, at Fiscal Year End
(Net of depreciation)**

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|---------------|
| | <u>2016</u> | <u>2015</u> |
| Land | \$ 409,270 | \$ 409,270 |
| Construction in progress | - | 105,980 |
| Land improvements | 169,394 | 207,580 |
| Buildings and improvements | 29,081,938 | 28,771,647 |
| Furniture, fixtures and equipment | 1,077,199 | 958,513 |
| Vehicles | 433,112 | 522,672 |
| Total capital assets | \$ 31,170,913 | \$ 30,975,662 |

As stated above at the end of fiscal year 2016, the School District had \$31,170,913 invested in capital assets (net of accumulated depreciation), an increase of \$195,251 from the prior year. This increase is due to a project that was completed during the fiscal year. The amount reported for vehicles of \$433,112 is approximately 15.5 percent of cost (\$2,802,708) which indicates the vehicles (mainly buses) are significantly depreciated and soon to be replaced or repaired. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

The School District's outstanding debt at June 30, 2016, consisted of general obligation bonds (including unamortized bond premium and bond accretion), in the amount of \$17,871,046. The School District's long-term obligations also include compensated absences and net pension liability.

**Fremont City School District
Sandusky County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

**Table 6
Outstanding Debt, at Fiscal Year End**

| | Governmental Activities <u>2016</u> | Governmental Activities <u>2015</u> |
|--------------------------|---|---|
| General obligation bonds | \$ 17,871,046 | \$ 16,808,212 |
| Total outstanding | <u>\$ 17,871,046</u> | <u>\$ 16,808,212</u> |

During the year, the School District issued refunding bonds on two occasions to advance refund a significant portion of the 2009A and 2009B School Facilities Construction bonds. For further information regarding the School District's long-term obligations, refer to Note 14 to the basic financial statements.

Current Issues

The Fremont City School District has continued to maintain the highest standards of service to our students, parents and community. The School District is always presented with challenges and opportunities. Recent national events and their impact on the School District and the surrounding area are very much under review and analysis. Economic recession has yet to impact our primary industries, but that could be a seasonal phenomena resulting from our agricultural and housing industry strengths. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its five year forecast.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Thus management must diligently plan expenses from this growth, staying carefully within its five-year forecast.

As a result of the challenges mentioned above, it is imperative that the School District's management continue to carefully and prudently plan to provide the resources required to meet student needs over the next several years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Amelia Gioffredo, Treasurer, Fremont City School District, 500 W. State Street, Suite A, Fremont, Ohio 43420.

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Fremont City School District
Sandusky County
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|--|----------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 22,867,563 |
| Investments in segregated accounts | 121,513 |
| Inventory held for resale | 21,847 |
| Receivables: | |
| Accounts | 37,472 |
| Intergovernmental | 883,680 |
| Accrued interest | 36,639 |
| Property taxes | 13,614,510 |
| Income taxes | 2,627,796 |
| Notes | 13,253 |
| Capital assets: | |
| Nondepreciable capital assets | 409,270 |
| Depreciable capital assets | 43,422,929 |
| Accumulated depreciation | (12,661,286) |
| Total capital assets | 31,170,913 |
| Total assets | 71,395,186 |
| Deferred outflows of resources: | |
| Deferred charge on refunding | 1,393,826 |
| Pension | 6,566,505 |
| Total deferred outflows of resources | 7,960,331 |
| Liabilities: | |
| Accounts payable | 631,717 |
| Accrued wages | 3,110,392 |
| Matured compensated absences payable | 79,943 |
| Intergovernmental payable | 1,148,353 |
| Accrued interest payable | 237,710 |
| Claims payable | 331,160 |
| Unearned revenue | 48,981 |
| Long-term liabilities: | |
| Due within one year | 1,231,609 |
| Due in more than one year: | |
| Net pension liability | 59,336,447 |
| Other amounts due in more than one year | 19,541,033 |
| Total liabilities | 85,697,345 |
| Deferred inflows of resources: | |
| Property taxes | 9,699,955 |
| Pension | 3,948,794 |
| Total deferred inflows of resources | 13,648,749 |
| Net position: | |
| Net investment in capital assets | 15,050,984 |
| Restricted for: | |
| Capital projects | 2,782,054 |
| Debt service | 887,736 |
| Other purposes | 2,961,708 |
| Unrestricted | (41,673,059) |
| Total net position | \$ (19,990,577) |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Activities
For the Fiscal Year Ended June 30, 2016

| | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position |
|---|----------------------|-------------------------|--|---|
| | Expenses | Charges for Services | Operating Grants, Contributions and Interest | |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 19,567,973 | \$ 948,255 | \$ 2,040,485 | \$ (16,579,233) |
| Special | 6,004,049 | 130,114 | 1,487,065 | (4,386,870) |
| Vocational | 12,643 | 36,170 | - | 23,527 |
| Other | 290,599 | - | 213,211 | (77,388) |
| Support services: | | | | |
| Pupils | 2,772,921 | 1,610 | 141,602 | (2,629,709) |
| Instructional staff | 1,508,524 | 36,390 | 489,609 | (982,525) |
| Board of education | 45,064 | - | - | (45,064) |
| Administration | 3,538,456 | 32,333 | 153,103 | (3,353,020) |
| Fiscal | 851,045 | - | 32,950 | (818,095) |
| Business | 167,109 | - | - | (167,109) |
| Operation and maintenance of plant | 4,440,573 | 24,221 | 32,566 | (4,383,786) |
| Pupil transportation | 1,562,201 | - | 17,633 | (1,544,568) |
| Central | 677,065 | 62,800 | 158,306 | (455,959) |
| Operation of non-instructional services | 2,665,185 | 310,400 | 2,316,512 | (38,273) |
| Extracurricular activities | 1,025,318 | 317,498 | 11,482 | (696,338) |
| Interest and fiscal charges | 787,568 | - | - | (787,568) |
| Total governmental activities | <u>\$ 45,916,293</u> | <u>\$ 1,899,791</u> | <u>\$ 7,094,524</u> | <u>(36,921,978)</u> |

General Revenues:

| | |
|---|------------------------|
| Property taxes levied for: | |
| General purposes | 11,941,611 |
| Debt service | 1,142,208 |
| Capital outlay | 434,287 |
| Capital facilities maintenance | 285,000 |
| Income taxes levied for general purposes | 7,857,167 |
| Grants and entitlements not restricted to specific programs | 18,508,827 |
| Payment in lieu of taxes | 28,720 |
| Investment earnings | 229,837 |
| Miscellaneous | 127,362 |
| Total general revenues | <u>40,555,019</u> |
| Change in net position | 3,633,041 |
| Net position beginning of year | <u>(23,623,618)</u> |
| Net position end of year | <u>\$ (19,990,577)</u> |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Balance Sheet
Governmental Funds
June 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 15,417,837 | \$ 6,149,679 | \$ 21,567,516 |
| Investments in segregated accounts | - | 121,513 | 121,513 |
| Inventory held for resale | - | 21,847 | 21,847 |
| Receivables: | | | |
| Accounts | 34,231 | 3,241 | 37,472 |
| Intergovernmental | 338,018 | 545,662 | 883,680 |
| Accrued interest | 36,589 | 50 | 36,639 |
| Property taxes | 11,771,671 | 1,842,839 | 13,614,510 |
| Income taxes | 2,627,796 | - | 2,627,796 |
| Notes | - | 13,253 | 13,253 |
| Total assets | <u>\$ 30,226,142</u> | <u>\$ 8,698,084</u> | <u>\$ 38,924,226</u> |
| Liabilities: | | | |
| Accounts payable | \$ 520,001 | \$ 108,504 | \$ 628,505 |
| Accrued wages | 2,933,236 | 177,156 | 3,110,392 |
| Matured compensated absences payable | 65,530 | 14,413 | 79,943 |
| Intergovernmental payable | 1,075,286 | 73,067 | 1,148,353 |
| Unearned revenue | - | 48,981 | 48,981 |
| Total liabilities | <u>4,594,053</u> | <u>422,121</u> | <u>5,016,174</u> |
| Deferred inflows of resources: | | | |
| Property taxes | 8,390,575 | 1,309,380 | 9,699,955 |
| Unavailable revenue | 127,877 | 186,848 | 314,725 |
| Unavailable revenue - delinquent property taxes | 836,436 | 131,971 | 968,407 |
| Total deferred inflows of resources | <u>9,354,888</u> | <u>1,628,199</u> | <u>10,983,087</u> |
| Fund balances: | | | |
| Nonspendable | - | 13,253 | 13,253 |
| Restricted | - | 6,641,116 | 6,641,116 |
| Committed | 4,946,457 | - | 4,946,457 |
| Assigned | 637,999 | - | 637,999 |
| Unassigned | 10,692,745 | (6,605) | 10,686,140 |
| Total fund balances | <u>16,277,201</u> | <u>6,647,764</u> | <u>22,924,965</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 30,226,142</u> | <u>\$ 8,698,084</u> | <u>\$ 38,924,226</u> |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2016

| | | |
|---|-----------------|--------------|
| Total governmental fund balances | \$ | 22,924,965 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 31,170,913 |
| Other long-term assets that are not available to pay for current-period expenditures and therefore are unavailable in the funds: | | |
| Property taxes | \$ 968,407 | |
| Intergovernmental | 233,746 | |
| Rent | 200 | |
| Tuition and fees | 80,733 | |
| Miscellaneous | 46 | |
| | | 1,283,132 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | (237,710) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds: | | |
| Deferred outflows - pension | 6,566,505 | |
| Deferred inflows - pension | (3,948,794) | |
| Net pension liability | (59,336,447) | |
| | | (56,718,736) |
| Long-term liabilities, including general obligation bonds and compensated absences are not due and payable in the current period and therefore are not reported in the funds: | | |
| General obligation bonds | \$ (15,210,000) | |
| Capital appreciation bonds | (536,840) | |
| Accretion on bonds | (357,291) | |
| Unamortized cost of refunding | 1,393,826 | |
| Premium on bonds | (1,766,915) | |
| Compensated absences | (2,901,596) | |
| Total | | (19,378,816) |
| An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. | | 965,675 |
| Net position of governmental activities | \$ | (19,990,577) |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

| | General | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Property taxes | \$ 11,988,953 | \$ 1,868,963 | \$ 13,857,916 |
| Income tax | 7,857,167 | - | 7,857,167 |
| Intergovernmental | 19,812,378 | 5,287,385 | 25,099,763 |
| Interest | 229,837 | 6,572 | 236,409 |
| Tuition and fees | 1,000,997 | - | 1,000,997 |
| Extracurricular activities | 170,141 | 213,659 | 383,800 |
| Gifts and donations | 20,481 | 264,664 | 285,145 |
| Charges for services | 36,865 | 291,228 | 328,093 |
| Rent | 24,021 | - | 24,021 |
| Payment in lieu of taxes | 28,720 | - | 28,720 |
| Miscellaneous | 149,342 | 59,435 | 208,777 |
| Total revenues | 41,318,902 | 7,991,906 | 49,310,808 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 18,620,028 | 1,193,863 | 19,813,891 |
| Special | 4,873,151 | 1,223,027 | 6,096,178 |
| Vocational | 12,643 | - | 12,643 |
| Other | 170,504 | 120,183 | 290,687 |
| Support services: | | | |
| Pupils | 2,764,996 | 114,775 | 2,879,771 |
| Instructional staff | 1,043,439 | 517,127 | 1,560,566 |
| Board of education | 43,235 | - | 43,235 |
| Administration | 3,494,900 | 128,540 | 3,623,440 |
| Fiscal | 823,139 | 60,073 | 883,212 |
| Business | 175,385 | - | 175,385 |
| Operation and maintenance of plant | 3,896,441 | 379,828 | 4,276,269 |
| Pupil transportation | 1,492,537 | 19,849 | 1,512,386 |
| Central | 671,304 | 16,112 | 687,416 |
| Operation of non-instructional services | 1,711 | 2,620,586 | 2,622,297 |
| Extracurricular activities | 761,489 | 194,053 | 955,542 |
| Capital outlay | 18,798 | 1,224,380 | 1,243,178 |
| Debt service: | | | |
| Principal retirement | - | 500,000 | 500,000 |
| Interest and fiscal charges | - | 540,005 | 540,005 |
| Issuance cost | - | 252,610 | 252,610 |
| Advance refunding escrow | - | 176,511 | 176,511 |
| Total expenditures | 38,863,700 | 9,281,522 | 48,145,222 |
| Excess of revenues over (under) expenditures | 2,455,202 | (1,289,616) | 1,165,586 |
| Other financing sources (uses): | | | |
| Premium on debt issuance | - | 1,890,060 | 1,890,060 |
| Refunding bonds issued | - | 14,664,935 | 14,664,935 |
| Transfers in | - | 2,237,339 | 2,237,339 |
| Transfers out | (147) | (2,237,192) | (2,237,339) |
| Payment to refunded bond escrow agent | - | (16,295,122) | (16,295,122) |
| Total other financing sources (uses) | (147) | 260,020 | 259,873 |
| Net change in fund balances | 2,455,055 | (1,029,596) | 1,425,459 |
| Fund balances at beginning of year | 13,822,146 | 7,677,360 | 21,499,506 |
| Fund balances at end of year | \$ 16,277,201 | \$ 6,647,764 | \$ 22,924,965 |

See accompanying notes to the basic financial statements.

**Fremont City School District
Sandusky County**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016*

| | | |
|--|---------------|-------------|
| Net change in fund balances - total governmental funds | \$ | 1,425,459 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p> | | |
| Capital asset additions | \$ 1,243,178 | |
| Depreciation expense | (1,006,305) | |
| Excess of capital outlay over depreciation expense | | 236,873 |
| <p>Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.</p> | | |
| | | (41,622) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:</p> | | |
| Property taxes | \$ (54,810) | |
| Intergovernmental | 214,871 | |
| Rent | 200 | |
| Tuition and fees | 78,348 | |
| Miscellaneous | (83) | |
| Net change in deferred inflows of resources during the year | | 238,526 |
| <p>Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of activities reports these amounts as deferred outflows.</p> | | |
| | | 3,359,031 |
| <p>Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.</p> | | |
| | | (3,185,239) |
| <p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p> | | |
| | | 500,000 |
| <p>The issuance of refunding bonds resulted in other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net position as liabilities.</p> | | |
| Payment to refunded bond escrow agent | \$ 16,471,633 | |
| Refunding bonds issued | (14,664,935) | |
| Premium on refunding bonds issued | (1,890,060) | |
| Net change caused by the issuance of refunding bonds | | (83,362) |
| <p>The amortization of bond premium and accretion is reflected as an expense in the statement of activities.</p> | | |
| Premium | \$ 157,605 | |
| Deferred cost of refunding | (111,377) | |
| Bond accretion | (131,874) | |
| Total additional expenses | | (85,646) |
| <p>Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:</p> | | |
| Decrease in compensated absences | \$ 1,089,458 | |
| Decrease in accrued interest | 90,693 | |
| Total additional expenditures | | 1,180,151 |
| <p>The internal service fund is used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p> | | |
| | | 88,870 |
| Change in net position of governmental activities | \$ | 3,633,041 |

See accompanying notes to the basic financial statements.

**Fremont City School District
Sandusky County**

*Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2016*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|---------------|---------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 11,603,500 | \$ 11,607,500 | \$ 11,607,468 | \$ (32) |
| Income tax | 7,881,465 | 7,883,765 | 7,883,724 | (41) |
| Intergovernmental | 18,617,760 | 19,657,262 | 19,531,716 | (125,546) |
| Interest | 75,000 | 75,000 | 155,441 | 80,441 |
| Tuition and fees | 1,003,055 | 1,000,870 | 927,641 | (73,229) |
| Rent | 38,500 | 38,500 | 24,453 | (14,047) |
| Extracurricular activities | 106,125 | 106,100 | 103,839 | (2,261) |
| Gifts and donations | 45,820 | 46,331 | 31,720 | (14,611) |
| Customer services | 60,000 | 60,000 | 36,170 | (23,830) |
| Miscellaneous | 79,825 | 87,125 | 84,188 | (2,937) |
| Total revenues | 39,511,050 | 40,562,453 | 40,386,360 | (176,093) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 18,979,195 | 18,943,422 | 18,870,939 | 72,483 |
| Special | 4,722,788 | 4,718,080 | 4,698,252 | 19,828 |
| Vocational | 16,500 | 15,959 | 12,844 | 3,115 |
| Other | 128,200 | 127,610 | 170,427 | (42,817) |
| Support services: | | | | |
| Pupils | 2,968,900 | 2,968,903 | 2,796,046 | 172,857 |
| Instructional staff | 1,167,380 | 1,167,378 | 1,035,512 | 131,866 |
| Board of education | 58,200 | 58,121 | 50,109 | 8,012 |
| Administration | 3,623,500 | 3,623,545 | 3,470,294 | 153,251 |
| Fiscal | 901,365 | 900,664 | 825,776 | 74,888 |
| Business | 179,179 | 179,179 | 175,839 | 3,340 |
| Operation and maintenance of plant | 4,298,283 | 4,295,942 | 3,989,024 | 306,918 |
| Pupil transportation | 1,600,690 | 1,599,492 | 1,507,976 | 91,516 |
| Central | 645,721 | 645,721 | 565,543 | 80,178 |
| Operation of non-instructional services | 2,584 | 4,527 | 1,776 | 2,751 |
| Extracurricular activities | 926,600 | 926,566 | 789,100 | 137,466 |
| Capital outlay | 70,000 | 40,000 | 40,000 | - |
| Total expenditures | 40,289,085 | 40,215,109 | 38,999,457 | 1,215,652 |
| Excess of revenues over (under) expenditures | (778,035) | 347,344 | 1,386,903 | 1,039,559 |
| Other financing sources (uses): | | | | |
| Proceeds from sale of capital assets | 2,049 | 2,262 | 2,281 | 19 |
| Refund of prior year expenditures | - | - | 72 | 72 |
| Refund of prior year receipts | (97) | (637) | - | 637 |
| Transfers in | 8,000 | 19,440 | 83,934 | 64,494 |
| Transfers out | (8,000) | (83,936) | (83,934) | 2 |
| Total other financing sources (uses) | 1,952 | (62,871) | 2,353 | 65,224 |
| Net change in fund balance | (776,083) | 284,473 | 1,389,256 | 1,104,783 |
| Fund balance at beginning of year | 12,391,443 | 12,391,443 | 12,391,443 | - |
| Prior year encumbrances appropriated | 395,551 | 395,551 | 395,551 | - |
| Fund balance at end of year | \$ 12,010,911 | \$ 13,071,467 | \$ 14,176,250 | \$ 1,104,783 |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Fund Net Position
Internal Service Fund
June 30, 2016

| | Self Insurance |
|--|-------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 1,300,047 |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | \$ 3,212 |
| Claims payable | 331,160 |
| Total liabilities | 334,372 |
| Net position: | |
| Unrestricted | 965,675 |
| Total liabilities and net position | \$ 1,300,047 |

See accompanying notes to the basic financial statements.

**Fremont City School District
Sandusky County**

*Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2016*

| | Self Insurance |
|--------------------------------|-------------------|
| Operating revenues: | |
| Charges for services | \$ 4,854,192 |
| Other revenues | 154,024 |
| Total operating revenues | 5,008,216 |
| | |
| Operating expenses: | |
| Purchased services | 898,445 |
| Claims | 4,020,901 |
| Total operating expenses | 4,919,346 |
| Change in net position | 88,870 |
| Net position beginning of year | 876,805 |
| Net position end of year | \$ 965,675 |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2016

| | Self Insurance |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash received from other operating sources | \$ 154,024 |
| Cash received for charges for services | 4,854,192 |
| Cash payments to suppliers for goods and services | (895,233) |
| Cash payments for claims | (4,003,672) |
| Net cash provided by operating activities | 109,311 |
| Net increase in cash and cash equivalents | 109,311 |
| Cash and cash equivalents at beginning of year | 1,190,736 |
| Cash and cash equivalents at end of year | \$ 1,300,047 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 88,870 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Change in liabilities: | |
| Increase (decrease) in liabilities: | |
| Accounts payable | 3,212 |
| Claims payable | 17,229 |
| Total adjustments | 20,441 |
| Net cash provided by operating activities | \$ 109,311 |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

| | Private Purpose Trusts | |
|--|---------------------------|-----------|
| | Endowment | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 55,158 | \$ 94,592 |
| Investments in segregated accounts | 273,344 | - |
| Receivables: | | |
| Accounts | - | 271 |
| Accrued interest receivable | 264 | - |
| Total assets | \$ 328,766 | \$ 94,863 |
| Liabilities: | | |
| Accounts payable | \$ - | \$ 1,611 |
| Undistributed monies | - | 1,873 |
| Due to students | - | 91,379 |
| Total liabilities | - | \$ 94,863 |
| Net position: | | |
| Held in trust for scholarships | 146,052 | |
| Endowments | 182,714 | |
| Total net position | \$ 328,766 | |

See accompanying notes to the basic financial statements.

Fremont City School District
Sandusky County
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2016

| | Private Purpose Trust |
|--|--------------------------|
| | Endowment |
| Additions: | |
| Interest | \$ 668 |
| Miscellaneous | 8,489 |
| Total additions | 9,157 |
| Deductions: | |
| Payments in accordance with trust agreements | 2,329 |
| Change in net position | 6,828 |
| Net position beginning of year | 321,938 |
| Net position end of year | \$ 328,766 |

See accompanying notes to the basic financial statements.

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE SCHOOL DISTRICT

Fremont City 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 guidelines.

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately one hundred sixty-two square miles. It is located in central Sandusky County, including all of the City of Fremont and portions of surrounding townships. It is staffed by 160 classified employees, 298 certified teaching personnel, including 35 administrative employees who provide services to 4,411 students and other community members. The School District currently operates seven elementary schools, a middle school, and a comprehensive high school.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements 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 Fremont City School District, this includes general operations, food service, preschool, and student related activities of the School District.

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. Component units may also include 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. There are no component units of the Fremont City School District.

The following activity is included within the School District's reporting entity:

Parochial Schools -Within the School District boundaries, Bishop Hoffman Catholic Schools are operated through the Toledo Catholic Diocese. Current state legislation provides funding to these parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District participates in three jointly governed organizations. These organizations are the Northern Ohio Educational Computer Association, the Vanguard-Sentinel Career Center and the Ohio Schools Council. These organizations are presented in Note 17 to the basic financial statements.

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

The basic financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District's accounting policies.

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

Fund Financial Statements

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

B. 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 reported in three categories: governmental, proprietary, and fiduciary.

Fremont City School District
Sandusky County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Governmental Funds

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

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

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The School District reports one type of proprietary fund:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's Self Insurance internal service fund accounts for the activities of the program for employee health care benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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's private purpose trust funds account for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-managed and student-managed activities and for money temporarily held for Ohio High School Athletic Association (OHSAA) tournaments.

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets, liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements

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

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets, liabilities, and deferred outflows and inflows of resources associated with the operation of this fund are included on the statement of fund net position. The statement of revenues, expenses, and changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its proprietary fund.

The private purpose trust funds are accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

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

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Revenues - Exchange and Nonexchange Transactions

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

For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, charges for services, and rent.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and deferred charge on refunding. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

**Fremont City School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are a report of estimated tax revenues, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The report of estimated tax revenues identifies the estimated revenues for those funds receiving tax monies as well as various debt and other schedules. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

The appropriation resolution is subject to amendment throughout the fiscal 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.

F. Cash and Investments

Cash received by the School District is pooled in various bank accounts with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents." Also, the School District maintains segregated accounts for the special trust, and endowment funds, which is presented as "Investments in segregated accounts".

**Fremont City School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

During the fiscal year all investments were limited to certificates of deposit, instruments of government sponsored mortgage-backed securities, and commercial paper. In addition, for 2016 the School District had an interest in STAR Ohio, the State Treasurer's Investment Pool.

The School District's investment in the State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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.

G. Inventory

Inventory is presented at the lower of cost or market on a first-in, first-out basis and is expensed/expensed when used. Inventory consists of donated and purchased food.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Unclaimed monies that must be held for five years before being spent are also reported as restricted. See Note 15 for the calculation of the year-end restricted asset balance.

I. Capital Assets

All of the School District's capital assets are general capital assets. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

**Fremont City School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The School District maintains a capitalization threshold of five thousand dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| <u>Description</u> | <u>Useful Lives</u> |
|-------------------------------------|---------------------|
| Land improvements | 5-7 years |
| Buildings and building improvements | 5-75 years |
| Furniture, fixtures, and equipment | 3-25 years |
| Vehicles | 4-15 years |

J. Interfund Assets/Liabilities

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

K. Net pension liability and pension expense

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

The current accounting standard requires School District's to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

**Fremont City School District
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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the School District. However, the School District is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The School District has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

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

Fremont City School District
Sandusky County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

N. 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 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. It also includes the long-term amount of loans receivable, unless the use of the proceeds from the collection of those receivables is restricted, committed, or assigned.

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. 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 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 fund balance classifications 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. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

O. Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services in the internal service fund. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. Interfund Transactions

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

R. Estimates

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

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 2 – FUND BALANCES

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 | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------|----------------------|---|---|
| <u>Nonspendable</u> | | | |
| Notes receivable | \$ - | \$ 13,253 | \$ 13,253 |
| <u>Restricted for</u> | | | |
| Food service | - | 25,156 | 25,156 |
| Athletics and music | - | 207,021 | 207,021 |
| Special education | - | 17,852 | 17,852 |
| Facilities maintenance | - | 1,872,945 | 1,872,945 |
| Scholarships and awards | - | 392,169 | 392,169 |
| Instructional programs | - | 183,568 | 183,568 |
| Parochial schools | - | 166,788 | 166,788 |
| Technology | - | 88 | 88 |
| Debt service payments | - | 1,045,116 | 1,045,116 |
| Capital improvements | - | 2,730,413 | 2,730,413 |
| Total restricted | - | 6,641,116 | 6,641,116 |
| <u>Committed</u> | | | |
| Underground storage tanks | 11,000 | - | 11,000 |
| Capital improvements | 4,935,457 | - | 4,935,457 |
| Total committed | 4,946,457 | - | 4,946,457 |
| <u>Assigned</u> | | | |
| Public school support | 358,662 | - | 358,662 |
| Encumbrances | 279,337 | - | 279,337 |
| Total assigned | 637,999 | - | 637,999 |
| Unassigned | 10,692,745 | (6,605) | 10,686,140 |
| Total fund balances | <u>\$ 16,277,201</u> | <u>\$ 6,647,764</u> | <u>\$ 22,924,965</u> |

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| Net Change in Fund Balance | |
|--|---------------------|
| | <u>General</u> |
| GAAP basis | \$ 2,455,055 |
| Revenue accruals | (595,485) |
| Adjustment to fair market value for investments: | |
| Prior year amount | (18,952) |
| Current year amount | 69,644 |
| Expenditure accruals | 371,677 |
| Budgeted as part of special revenue fund: | |
| Revenues | (301,462) |
| Transfers | 147 |
| Expenditures | 200,899 |
| Encumbrances (Budget Basis) | |
| outstanding at year end | <u>(792,267)</u> |
| Budget basis | <u>\$ 1,389,256</u> |

**Fremont City School District
Sandusky County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 five years from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the School District and the investment is not a commercial paper note, a banker's acceptance or a repurchase agreement:

1. United States Treasury bills, notes, bonds, or any other obligations or securities 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 for a period not to exceed thirty days in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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7. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and
8. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

All interest is legally required to be placed in the general fund, and other funds as approved by a Board resolution. Interest revenue credited to the general fund during fiscal year 2016 amount to \$229,837, which includes \$76,180 assigned from other School District funds.

Deposits with Financial Institutions

At June 30, 2016, the carrying amount of the School District's deposits was \$5,622,657. Of this balance \$121,513 in the special trust special revenue fund and \$273,344 in the endowment private purpose trust fund are "Investments in segregated accounts". The School District's bank balance of \$5,514,960 was not exposed to custodial risk.

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Investments

As of June 30, the School District had the following investment and maturity:

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| <u>Investments included within pooled funds:</u> | <u>Measurement Value</u> | <u>Portfolio Ratio</u> | <u>Maturity Date</u> | <u>Rating</u> |
|--|------------------------------|----------------------------|--------------------------|---------------------|
| Federal Home Loan Bank | \$ 150,036 | 0.84% | 04/29/19 | AA+ ⁽¹⁾ |
| Federal Home Loan Bank | 847,383 | 4.76% | 08/23/17 | AA+ ⁽¹⁾ |
| Federal Home Loan Bank | <u>500,320</u> | 2.81% | 06/15/20 | AA+ ⁽¹⁾ |
| Total FHLB | <u>1,497,739</u> | | | |
| | | | | |
| Federal Home Loan Mortgage Corporation | 721,332 | 4.06% | 08/08/17 | AA+ ⁽¹⁾ |
| Federal Home Loan Mortgage Corporation | 750,487 | 4.22% | 04/05/19 | AA+ ⁽¹⁾ |
| Federal Home Loan Mortgage Corporation | 500,170 | 2.81% | 05/04/21 | AA+ ⁽¹⁾ |
| Federal Home Loan Mortgage Corporation | <u>585,322</u> | 3.29% | 05/26/21 | AA+ ⁽¹⁾ |
| Total FHLMC | <u>2,557,311</u> | | | |
| | | | | |
| Federal National Mortgage Association | 140,139 | 0.79% | 03/29/19 | AA+ ⁽¹⁾ |
| Federal National Mortgage Association | 550,412 | 3.09% | 06/28/19 | AA+ ⁽¹⁾ |
| Federal National Mortgage Association | <u>500,135</u> | 2.81% | 02/26/20 | AA+ ⁽¹⁾ |
| Total FNMA | <u>1,190,686</u> | | | |
| | | | | |
| Federal Farm Credit Bank | 525,016 | 2.95% | 02/18/20 | AA+ ⁽¹⁾ |
| Commercial paper | 1,190,226 | 6.69% | 03/10/17 | AA+ ⁽¹⁾ |
| Commercial paper | <u>446,436</u> | 2.51% | 03/10/17 | AA+ ⁽¹⁾ |
| Subtotal government sponsored securities and commercial paper | <u>7,407,414</u> | | | |
| | | | | |
| STAR Ohio | <u>5,357,398</u> | <u>30.12%</u> | 48.6 ⁽²⁾ | AAAm ⁽¹⁾ |
| Total investments | <u>\$ 12,764,812</u> | <u>71.76%</u> | | |

⁽¹⁾ Standard and Poor's rating

⁽²⁾ Days (Average)

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percentage of Investments</u> | <u>< 1 year</u> | <u>Maturity < 2 years</u> | <u>3-5 years</u> |
|------------------------------------|-----------------------|--------------------------------------|--------------------|----------------------------------|------------------|
| Negotiable certificates of deposit | \$ 5,024,701 | 28.25% | \$ 1,241,303 | \$ 1,001,387 | \$ 2,782,011 |

All of the School District's negotiable CD's were covered in full by FDIC insurance.

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The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above tables identify the School District's recurring fair value measurement as of June 30, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB) and Federal Home Loan Bank (FHLB) are held by the counterparty's trust department or agent and not in the School District's name. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5% of the School District's investments are in commercial paper, FHLB, FHLMC and FNMA bonds. The table above summarizes the School District's percentage of investments at the fiscal year end. All of the School District's certificates of deposit are individually below the 5% threshold. The School District's policy places no limit on the amount that may be invested in any one issuer.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts (rent, billings for user charged services, and student fees), intergovernmental, income taxes, accrued interest, amounts due from external parties, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

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A summary of the principal items of receivables follows:

| | <u>Amount</u> |
|--------------------------------|-----------------------------|
| Governmental Activities | |
| General Fund | |
| Property taxes | \$ 11,771,671 |
| Income tax | 2,627,796 |
| Intergovernmental | 338,018 |
| | |
| Other Governmental Funds | |
| Property taxes | 1,842,839 |
| Intergovernmental: | |
| Title I -C | 115,051 |
| IDEA, Part B | 133,464 |
| Title III | 3,992 |
| Title I | 212,616 |
| Improving teacher quality | 40,780 |
| Miscellaneous Federal grants | <u>39,759</u> |
| Total other governmental funds | <u>\$ 2,388,501</u> |
| | |
| Total governmental activities | <u><u>\$ 17,125,986</u></u> |

NOTE 6 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was renewed on January 1, 2014 and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 7 - PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires. These payments are reported in the general fund.

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NOTE 8 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in public utility) property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed at 35% of true value and public utility tangible personal property currently is assessed at varying percentages of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

The School District receives property taxes from Sandusky County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2016, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2016, was \$2,544,660 in the general fund and was \$244,384 in the debt service fund and \$157,104 in the permanent improvement capital projects fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on an accrual basis. On the modified accrual basis, the revenue is a deferred inflow of resources. The assessed values upon which the fiscal year 2016 taxes were collected are:

| | 2016 First Half Collections | | 2015 Second Half Collections | |
|---|--------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/residential and other real estate | \$ 555,595,260 | 91.22% | \$ 530,348,990 | 90.93% |
| Public utility | <u>53,495,020</u> | <u>8.78%</u> | <u>52,906,930</u> | <u>9.07%</u> |
| Total assessed value | <u>\$ 609,090,280</u> | <u>100.00%</u> | <u>\$ 583,255,920</u> | <u>100.00%</u> |

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NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

| | <u>Balance 7/1/2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2016</u> |
|-------------------------------------|-----------------------------|---------------------|-----------------------|------------------------------|
| Governmental Activities | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$ 409,270 | \$ - | \$ - | \$ 409,270 |
| Construction in progress | 105,980 | 862,815 | (968,795) | - |
| Total nondepreciable capital assets | <u>515,250</u> | <u>862,815</u> | <u>(968,795)</u> | <u>409,270</u> |
| Depreciable capital assets | | | | |
| Land improvements | 641,571 | - | - | 641,571 |
| Buildings and building improvements | 36,680,819 | 973,918 | - | 37,654,737 |
| Furniture, fixtures, and equipment | 2,094,374 | 340,112 | (110,573) | 2,323,913 |
| Vehicles | 2,882,890 | 35,128 | (115,310) | 2,802,708 |
| Total depreciable capital assets | <u>42,299,654</u> | <u>1,349,158</u> | <u>(225,883)</u> | <u>43,422,929</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (433,991) | (38,186) | - | (472,177) |
| Buildings and building improvements | (7,909,172) | (663,627) | - | (8,572,799) |
| Furniture, fixtures, and equipment | (1,135,861) | (179,804) | 68,951 | (1,246,714) |
| Vehicles | (2,360,218) | (124,688) | 115,310 | (2,369,596) |
| Total accumulated depreciation | <u>(11,839,242)</u> | <u>(1,006,305)</u> | <u>184,261</u> | <u>(12,661,286)</u> |
| Depreciable capital assets, net | | | | |
| Governmental activities | <u>30,460,412</u> | <u>342,853</u> | <u>(41,622)</u> | <u>30,761,643</u> |
| Capital assets, net | <u>\$ 30,975,662</u> | <u>\$ 1,205,668</u> | <u>\$ (1,010,417)</u> | <u>\$ 31,170,913</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---------------------|
| Instruction: | |
| Regular | \$ 381,687 |
| Special | 36,039 |
| Support services: | |
| Pupils | 4,104 |
| Instructional staff | 15,209 |
| Board of education | 1,889 |
| Administration | 7,105 |
| Operation and maintenance of plant | 299,951 |
| Pupil transportation | 120,702 |
| Operation of non-instructional services | 63,086 |
| Extracurricular activities | 76,533 |
| Total depreciation expense | <u>\$ 1,006,305</u> |

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NOTE 10 - RISK MANAGEMENT

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. These risks are covered by commercial insurance purchased from independent third parties.

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

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The School District offers medical, prescription drug, and dental insurance to all employees through a partially self-insured program. All funds of the School District participated in the program and made payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The School District purchased stop loss insurance for claims in excess of \$150,000 per individual annually and unlimited per individual, per lifetime. Settled claims have not exceeded this coverage for the past three years. Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at June 30, 2016 were estimated by the third party administrator at \$331,160.

The changes in the claims liability for the past two fiscal years are as follow:

| Fiscal Year | Beginnning Balance | Current Year Claims | Claims Payments | Ending Balance |
|----------------|-----------------------|------------------------|--------------------|-------------------|
| 2015 | \$ 520,035 | \$ 3,771,636 | \$ 3,977,740 | \$ 313,931 |
| 2016 | \$ 313,931 | \$ 4,020,901 | \$ 4,003,672 | \$ 331,160 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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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 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.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

A. School Employees Retirement System

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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| | Eligible to Retire on or before <u>August 1, 2017</u> * | Eligible to Retire on or after <u>August 1, 2017</u> |
|------------------------------|---|--|
| 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 thirty 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.

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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$756,911 for fiscal year 2016. Of this amount \$3,474 is reported as an intergovernmental payable.

B. State Teachers Retirement System

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 Web site at www.strsoh.org.

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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 is 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 five 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 increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five 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, 11.5 percent of the 13 percent member rate goes to the DC Plan and 1.5 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 services. 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.

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.

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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. Effective July 1, 2016 the statutory maximum employee contribution rate was increased to 14 percent. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$2,602,120 for fiscal year 2016. Of this amount \$431,982 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|-------------------|--------------|
| Proportion of the net pension liability - prior measurement date | 0.174560% | 0.1749256% | |
| Proportion of the net pension liability - current measurement date | <u>0.172891%</u> | <u>0.1790027%</u> | |
| Change in proportionate share | <u>-0.001669%</u> | <u>0.004077%</u> | |
| | | | |
| Proportionate share of the net pension liability | \$9,865,328 | \$49,471,119 | \$59,336,447 |
| Pension expense | \$589,832 | \$2,595,407 | \$3,185,239 |

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|
| Deferred outflows of resources | | | |
| Differences between expected and actual experience | \$ 158,850 | \$ 2,255,259 | \$ 2,414,109 |
| Changes in proportionate share and difference between School District contributions and proportionate share of contributions | - | 793,365 | 793,365 |
| School District contributions subsequent to the measurement date | <u>756,911</u> | <u>2,602,120</u> | <u>3,359,031</u> |
| Total deferred outflows of resources | <u>\$ 915,761</u> | <u>\$ 5,650,744</u> | <u>\$ 6,566,505</u> |
| Deferred inflows of resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 326,870 | \$ 3,557,909 | \$ 3,884,779 |
| Changes in proportionate share and difference between School District contributions and proportionate share of contributions | <u>64,015</u> | <u>-</u> | <u>64,015</u> |
| Total deferred inflows of resources | <u>\$ 390,885</u> | <u>\$ 3,557,909</u> | <u>\$ 3,948,794</u> |

\$3,359,031 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|----------------|---------------------|---------------------|---------------------|
| 2017 | \$ (139,156) | \$ (604,561) | \$ (743,717) |
| 2018 | (139,156) | (604,561) | (743,717) |
| 2019 | (139,909) | (604,563) | (744,472) |
| 2020 | <u>186,186</u> | <u>1,304,400</u> | <u>1,490,586</u> |
| Total | <u>\$ (232,035)</u> | <u>\$ (509,285)</u> | <u>\$ (741,320)</u> |

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.

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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, 2015, are presented below:

| | |
|--|--|
| Wage inflation | 3.25 percent |
| Future salary increases, including inflation | 4 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 averaged 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:

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| <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>100.00 %</u> | |

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 each plan's 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 <u>(6.75%)</u> | Current discount rate <u>(7.75%)</u> | 1% Increase <u>(8.75%)</u> |
|--|-------------------------------|--|-------------------------------|
| School District's proportionate share of the net pension liability | \$ 13,679,665 | \$9,865,328 | \$6,653,342 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, 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. |

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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 no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, 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:

| <u>Asset class</u> | <u>Target allocation</u> | <u>Long term expected real rate of return</u> |
|------------------------|------------------------------|---|
| 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 | <u>1.00</u> | 3.00 |
| Total | <u><u>100.00 %</u></u> | |

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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:

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| | 1% Decrease <u>(6.75%)</u> | Current discount rate <u>(7.75%)</u> | 1% Increase <u>(8.75%)</u> |
|---|-------------------------------|--|-------------------------------|
| School District's proportionate share of the net pension liability | \$ 68,719,116 | \$49,471,119 | \$33,194,067 |

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2016, several members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The School District contributes to the 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 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.

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic 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 2016, there was no allocation of covered payroll 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 2016, this amount was \$23,000. 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 2016, the School District's surcharge obligation was \$88,686.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$88,686, \$134,275, and \$95,198, respectively. For fiscal year 2016, 0 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

B. 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 which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. 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 deducted from employer contributions. For fiscal year 2016 and 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, 2016, 2015, and 2014 were \$0, \$0, and \$181,783 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred sixty days for administrators, supervisors, and classified supervisors; two hundred forty-four days for teachers and school calendar employees; and two hundred sixty days for full-time classified employees. Upon retirement, payment is made for one half of accrued, but unused sick leave credit to a maximum of fifty-three days for teachers and thirty-five to seventy days for classified employees, depending on various incentives and years of service. Payment for administrators, supervisors, and classified supervisors is made for one half up to fifty-three days or more with certain incentives.

B. Health Care Benefits

The School District provides medical, prescription drug, and dental insurance benefits to all employees through a partially self-insured program.

C. Special Termination Benefits

The School District offers a special termination benefit to employees in the first year they are eligible to retire from their respective retirement system. The benefit is available to certified employees who have five or more years of consecutive service and retire from STRS and to classified employees who have seventeen or more years of consecutive service and retire from SERS. The bonus, of twenty days calculated at the employee's daily rate at the time of retirement, will be paid after January 1 and before March 31 of the year following retirement for certified employees and within sixty days of retirement acceptance for classified employees. The bonus carries a provision that classified employees must also have accrued in excess of one hundred fifty days of unused sick leave at the time of retirement.

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2016 were as follows:

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| | <u>Balance at</u> <u>6/30/2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at</u> <u>6/30/2016</u> | <u>Amount</u> <u>Due within</u> <u>One Year</u> |
|---|---------------------------------------|----------------------|------------------------|---------------------------------------|---|
| Governmental Activities | | | | | |
| <u>General obligation bonds</u> | | | | | |
| 2016 Refunding Bonds | | | | | |
| Serial and term bonds | \$ - | \$ 7,165,000 | \$ - | \$ 7,165,000 | \$ 60,000 |
| Premium | - | 980,223 | (73,160) | 907,063 | - |
| 2015 Refunding Bonds | | | | | |
| Serial and term bonds | - | 7,260,000 | - | 7,260,000 | 45,000 |
| Capital appreciation bonds | - | 239,935 | - | 239,935 | - |
| Premium | - | 909,837 | (66,908) | 842,929 | - |
| Accretion on bonds | - | 6,687 | - | 6,687 | - |
| 2009B School facilities construction and improvement | | | | | |
| Serial and term bonds | 8,015,000 | - | (7,750,000) | 265,000 | - |
| Capital appreciation bonds | 239,877 | - | - | 239,877 | 66,065 |
| Premium | 79,889 | - | (75,635) | 4,254 | - |
| Accretion on bonds | 152,307 | 47,670 | - | 199,977 | 188,935 |
| 2009A School facilities construction and improvement | | | | | |
| Serial and term bonds | 7,755,000 | - | (7,235,000) | 520,000 | - |
| Capital appreciation bonds | 125,683 | - | (68,655) | 57,028 | 57,028 |
| Premium | 186,001 | - | (173,332) | 12,669 | - |
| Accretion on bonds | 254,455 | 77,517 | (181,345) | 150,627 | 192,972 |
| Total general obligation bonds | <u>16,808,212</u> | <u>16,686,869</u> | <u>(15,624,035)</u> | <u>17,871,046</u> | <u>610,000</u> |
| <u>Other long-term obligations</u> | | | | | |
| Compensated absences | <u>3,991,054</u> | <u>621,609</u> | <u>(1,711,067)</u> | <u>2,901,596</u> | <u>621,609</u> |
| <u>Net pension liability</u> | | | | | |
| STRS | 42,547,952 | 6,923,167 | - | 49,471,119 | - |
| SERS | <u>8,834,382</u> | <u>1,030,946</u> | <u>-</u> | <u>9,865,328</u> | <u>-</u> |
| Total net pension liability | <u>51,382,334</u> | <u>7,954,113</u> | <u>-</u> | <u>59,336,447</u> | <u>-</u> |
| Total long-term obligations | <u>\$ 72,181,600</u> | <u>\$ 25,262,591</u> | <u>\$ (17,335,102)</u> | <u>\$ 80,109,089</u> | <u>\$ 1,231,609</u> |

During fiscal year 2010, the School District issued \$9,499,877 in general obligation bonds with a maturity date of July 15, 2037. The bonds are a combination of serial, term and capital appreciation bonds. The interest rates vary between 3% and 4.5% for serial bonds, 5% for term bonds and 18.80% for capital appreciation bonds. The capital appreciation bonds mature in fiscal years 2017 and 2018 with par values of \$255,000 and \$260,000 respectively. The bonds will be used to finance construction and improvements of school buildings and facilities. The principal payments began in fiscal year 2010.

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On January 28, 2009 the School District issued \$9,134,991 in general obligation bonds with a maturity date of July 15, 2037. The bonds are a combination of serial, term and capital appreciation bonds. The interest rates vary between 3% and 3.125% for serial bonds, 3.875%-4.75% for term bonds and 19.446% for capital appreciation bonds. The remaining capital appreciation bonds mature in fiscal year 2017 with a par value of \$250,000 respectively. The amount shown above as due within one year for the accretion on bonds includes the next semi-annual accreted amount to be taken on December 2016 when the bond comes due. The bonds will be used to finance construction and improvements of school buildings and facilities. The principal payments began in fiscal year 2010.

On December 1, 2015, the School District issued \$7,499,935 in general obligation bonds with interest rates ranging from 1% to 4% for serial and term bonds and 23.81% for capital appreciation bonds to advance refund \$7,500,000 of outstanding 2009B School Facilities bonds with an average interest rate of 4.82%. The bond proceeds consisted of bond principal and \$909,837 of premium. The net proceeds of \$8,451,014 (after payment of \$135,270 in underwriting fees, insurance, and other issuance costs) was deposited into an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of 2009B School Facilities refunded. As a result of this issue, a portion of the 2009B School Facilities bonds are considered to be redeemed and the liability has been removed. The old debt has a final call date of January 15, 2019 in which the debt will be repaid.

The School District refunded the 2009B School Facilities bonds to reduce their total debt service payments and to obtain an economic game (difference between the present values of the debt service payments on the old and new debt) of \$638,442.

On March 15, 2016, the School District issued \$7,165,000 in general obligation bonds with interest rates ranging from 2% to 4% for serial and term bonds to advance refund \$7,235,000 of outstanding 2009A School Facilities bonds with an average interest rate of 4.57%. The bond proceeds consisted of bond principal and \$980,223 of premium. The net proceeds of \$8,020,619 (after payment of \$124,604 in underwriting fees, insurance, and other issuance costs) was deposited into an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of 2009A School Facilities refunded. As a result of this issue, a portion of the 2009A School Facilities bonds are considered to be redeemed and the liability has been removed. The old debt has a final call date of January 15, 2019 in which the debt will be repaid.

The School District refunded the 2009A School Facilities bonds to reduce their total debt service payments and to obtain an economic game (difference between the present values of the debt service payments on the old and new debt) of \$714,593.

Compensated absences will be paid from the general fund and the Food Service, the IDEA, Part B and Title I special revenue funds.

The School District pays pension obligations related to employee compensation from the fund benefitting from their service.

The School District's overall debt margin was \$39,071,285 with an unvoted debt margin of \$609,090 at June 30, 2016.

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Principal, compounded interest on capital appreciation bonds and interest requirements to retire the general obligation bonds outstanding at June 30, 2016, were as follows:

2009A and B School facilities construction and improvement bonds

| <u>Fiscal Year</u> | Compounded | | | |
|--------------------|---------------------|-------------------|------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ 123,093 | \$ 381,907 | \$ 32,531 | \$ 537,531 |
| 2018 | 428,812 | 86,188 | 32,531 | 547,531 |
| 2019 | 530,000 | - | 18,881 | 548,881 |
| | <u>\$ 1,081,905</u> | <u>\$ 468,095</u> | <u>\$ 83,943</u> | <u>\$ 1,633,943</u> |

2016 and 2015 Refunding bonds

| <u>Fiscal Year</u> | Compounded | | | |
|--------------------|----------------------|-------------------|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ 105,000 | \$ - | \$ 507,212 | \$ 612,212 |
| 2018 | 90,000 | - | 519,800 | 609,800 |
| 2019 | 90,000 | - | 518,400 | 608,400 |
| 2020 | 417,526 | 202,474 | 517,000 | 1,137,000 |
| 2021 | 402,409 | 232,591 | 508,450 | 1,143,450 |
| 2022-2026 | 3,420,000 | - | 2,296,200 | 5,716,200 |
| 2027-2031 | 4,080,000 | - | 1,657,250 | 5,737,250 |
| 2032-2036 | 4,945,000 | - | 824,725 | 5,769,725 |
| 2037 | 1,115,000 | - | 44,600 | 1,159,600 |
| | <u>\$ 14,664,935</u> | <u>\$ 435,065</u> | <u>\$ 7,393,637</u> | <u>\$ 22,493,637</u> |

NOTE 15 - SET ASIDES

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. The School District may replace using general fund revenues with proceeds from various sources (offsets), such as bond or levy proceeds related to the acquisition, replacement, enhancement, maintenance or repair of permanent improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

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

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The following information describes the change in the year-end set-aside amounts for capital maintenance.

| | <u>Capital Improvements</u> |
|------------------------------------|---------------------------------|
| Balance June 30, 2015 | \$ - |
| Current year set-aside requirement | 711,373 |
| Current year offsets | <u>(822,009)</u> |
| Balance June 30, 2016 | <u>\$ (110,636)</u> |
| Balance carried forward to 2017 | <u><u>\$ -</u></u> |

NOTE 16 - DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments. Endowments, in the amount of \$182,714, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$146,052 and is reflected as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among local school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board of Directors. During fiscal year 2016, the School District paid \$144,486 to NOECA for various services. Financial information can be obtained from Matthew Bauer, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

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B. Vanguard-Sentinel Career Center

The Vanguard-Sentinel Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of two representatives from the School District and one representative from the other thirteen participating school districts' elected boards. The Career Center possesses its own budgeting and taxing authority. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Vanguard-Sentinel Career Center, Alan Binger, who serves as Treasurer, 1306 Cedar Street, Fremont, Ohio 43420.

C. Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 201 school districts, educational service centers, joint vocational school districts, and developmental disabilities boards in thirty-five northern Ohio counties. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to its members. Each member supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2016 the School District paid the Council \$22,600 for life insurance, \$23,423 for natural gas purchases, and \$932 for membership fees. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

NOTE 18 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure 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, if applicable, cannot be determined at this time nor does management believe any such disallowed claims will have a material adverse effect on the overall financial position of the School District at June 30, 2016.

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B. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of 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 District, which can extend past the fiscal year end. As of the date of this report, ODE has not yet finalized the impact of enrollment adjustments to the June 30, 2015 and June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

NOTE 19 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016 consisted of the following:

| | |
|--|----------------------------|
| Transfers from general fund to: | |
| Nonmajor governmental funds | \$ 147 |
| | |
| Transfers from nonmajor governmental funds to: | |
| Nonmajor governmental funds | <u>2,237,192</u> |
| Total | <u><u>\$ 2,237,339</u></u> |

During the year, the Schools Facilities fund was closed out with transfers to the permanent improvement, and building capital projects funds.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 20 - ACCOUNTABILITY

As of June 30, 2016, the School District had several funds with a deficit fund balance. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The following funds had a deficit balance:

| | <u>Amount</u> |
|--|---------------|
| <u>Nonmajor special revenue funds:</u> | |
| Title III | \$ 128 |
| Title II-A Improving teacher quality | 6,477 |

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For the Fiscal Year Ended June 30, 2016*

NOTE 21 – CONTRACTUAL AND OTHER COMMITMENTS

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-end Encumbrances</u> |
|--------------------|----------------------------------|
| General fund | \$ 808,108 |
| Other governmental | 834,089 |
| Total | <u>\$ 1,642,197</u> |

NOTE 22 – CHANGE IN AN ESTIMATE

As of June 30, 2016, the School District changed its method of estimating the liability for compensated absences. The School District was using the vesting method and has switched to using the termination method. The School District believes the termination method is preferable to the method previously employed. This change in estimate did not result in a restatement of compensated absences.

Required Supplementary Information

Fremont City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|---------------|
| School Employees Retirement System (SERS) of Ohio | | | |
| School District's proportion of the net pension liability | 0.172891% | 0.174560% | 0.174560% |
| School District's proportionate share of the net pension liability | \$ 9,865,328 | \$ 8,834,382 | \$ 10,380,523 |
| School District's covered employee payroll | \$ 5,201,108 | \$ 5,092,504 | \$ 4,880,535 |
| School District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 189.68% | 173.48% | 212.69% |
| Plan fiduciary net position as a percentage of total pension liability | 69.16% | 71.70% | 65.52% |
| | | | |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
| State Teachers Retirement System (STRS) of Ohio | | | |
| School District's proportion of the net pension liability | 0.1790027% | 0.1749256% | 0.1749256% |
| School District's proportionate share of the net pension liability | \$ 49,471,119 | \$ 42,547,952 | \$ 50,682,843 |
| School District's covered employee payroll | \$ 18,749,086 | \$ 18,038,231 | \$ 17,945,700 |
| School District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 263.86% | 235.88% | 282.42% |
| Plan fiduciary net position as a percentage of total pension liability | 72.10% | 74.70% | 69.30% |

(1) Information prior to 2013 is not available and the amounts presented are as of the School District's measurement date which is the prior fiscal year end.

Fremont City School District
Required Supplementary Information
Schedule of School District Contributions
Last Four Fiscal Years (1)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|------------------|------------------|
| School Employees Retirement System (SERS) of Ohio | | | | |
| Contractually required contribution | \$ 756,911 | \$ 685,506 | \$ 705,821 | \$ 675,466 |
| Contributions in relation to contractually required contribution | <u>(756,911)</u> | <u>(685,506)</u> | <u>(705,821)</u> | <u>(675,466)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School District covered employee payroll | \$ 5,406,507 | \$ 5,201,108 | \$ 5,092,504 | \$ 4,880,535 |
| Contributions as a percentage of covered employee payroll | 14.00% | 13.18% | 13.86% | 13.84% |

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| State Teachers Retirement System (STRS) of Ohio | | | | |
| Contractually required contribution | \$ 2,602,120 | \$ 2,624,872 | \$ 2,344,970 | \$ 2,332,941 |
| Contributions in relation to contractually required contribution | <u>(2,602,120)</u> | <u>(2,624,872)</u> | <u>(2,344,970)</u> | <u>(2,332,941)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School District covered employee payroll | \$ 18,586,571 | \$ 18,749,086 | \$ 18,038,231 | \$ 17,945,700 |
| Contributions as a percentage of covered employee payroll | 14.00% | 14.00% | 13.00% | 13.00% |

(1) Information prior to 2013 is not available.

Fremont City School District
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

December 27, 2016

The Board of Education
Fremont City School District
500 West State Street Suite A
Fremont, OH 43420

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fremont City School District, Sandusky County, Ohio (the School District) as of and for the year ended June 30, 2016, 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 December 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying corrective action plan. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

December 27, 2016

To the Board of Education
Fremont City School District
Sandusky County, Ohio
500 West State Street Suite A
Fremont, OH 43420

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by the Uniform Guidance**

Report on Compliance for Each Major Federal Program

We have audited Fremont City School District's, Sandusky County, Ohio (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. 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 School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

The School District's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003, that we consider to be significant deficiencies.

The School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Fremont CSD
Sandusky County, Ohio
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

| Federal Grantor/ Pass Through Grantor/ Program Title | CFDA Number | Program Year | Federal Disbursements | Passed Through to Subrecipients |
|---|----------------|-----------------|--------------------------|------------------------------------|
| U. S. Department of Education (Passed Through Ohio Department of Education): | | | | |
| Title I School Improvement Sub A | 84.010 | 2015 | \$ 1,818 | 0 |
| Title I School Improvement Sub A | 84.010 | 2016 | 27,467 | 0 |
| Title I-A Improving Basic Programs | 84.010 | 2015 | 119,994 | 0 |
| Title I-A Improving Basic Programs | 84.010 | 2016 | 968,560 | 0 |
| Title I-D Delinquent | 84.010 | 2015 | 14,154 | 0 |
| Title I-D Delinquent | 84.010 | 2016 | 61,978 | 0 |
| Total Title I | | | 1,193,971 | 0 |
| Title I-C Migrant | 84.011 | 2015 | 175,360 | 0 |
| Title I-C Migrant | 84.011 | 2016 | 41,795 | 0 |
| Total Title I-C Migrant | | | 217,155 | 0 |
| IDEA-B Special Education | 84.027 | 2015 | 33,666 | 0 |
| IDEA-B Special Education | 84.027 | 2016 | 820,311 | 0 |
| Total Special Education - Grants to States | | | 853,977 | 0 |
| Title II-A - Improving Teacher Quality | 84.367 | 2015 | 45,489 | 0 |
| Title II-A - Improving Teacher Quality | 84.367 | 2016 | 180,815 | 0 |
| Total Title II-A - Improving Teacher Quality | | | 226,304 | 0 |
| Title III LEP | 84.365 | 2015 | 5,499 | 0 |
| Title III LEP | 84.365 | 2016 | 26,444 | 0 |
| Total Title III LEP | | | 31,943 | 0 |
| ARRA - Race to the Top | 84.395 | 2015 | 23,730 | 0 |
| 21st Century Learning | 84.287 | 2016 | 178,750 | 0 |
| Title VI-B Rural and Low-Income | 84.358 | 2015 | 8,744 | 0 |
| Title VI-B Rural and Low-Income | 84.358 | 2016 | 21,989 | 0 |
| Total Title VI-B Rural and Low-Income | | | 30,733 | 0 |
| Total U.S. Department of Education | | | 2,756,563 | 0 |
| U. S. Department of Agriculture (Passed Through Ohio Department of Education): | | | | |
| Child Nutrition Cluster: | | | | |
| Non-Cash Assistance: | | | | |
| National School Breakfast Program | 10.553 | 2016 | 31,223 | 0 |
| National School Lunch Program | 10.555 | 2016 | 122,278 | 0 |
| Cash Assistance: | | | | |
| School Breakfast Program | 10.553 | 2016 | 288,972 | 0 |
| National School Lunch Program | 10.555 | 2016 | 1,131,684 | 0 |
| Summer Food Service Program | 10.559 | 2016 | 26,833 | 0 |
| Total Nutrition Cluster | | | 1,600,990 | 0 |
| Child and Adult Care Food Program | 10.558 | 2016 | 9,360 | 0 |
| Total U.S. Department of Agriculture | | | 1,610,350 | 0 |
| Total Federal Assistance | | | \$ 4,366,913 | 0 |

See accompanying notes to this schedule

Fremont City School District
Sandusky County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
2 CFR 200.510(b)(6)
For the Fiscal Year Ended June 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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 D – FOOD DONATION PROGRAM

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

Fremont City School District
Sandusky County, Ohio
Schedule of Findings and Questioned Costs
2 CFR Section 200.515
June 30, 2016

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|-----------------------|---|---|
| <i>(d) (1) (i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d) (1) (ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d) (1) (ii)</i> | Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)? | Yes |
| <i>(d) (1) (iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d) (1) (iv)</i> | Was there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d) (1) (iv)</i> | Were there any other significant deficiencies reported for major federal programs? | Yes |
| <i>(d) (1) (v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d) (1) (vi)</i> | Are there any reportable findings under 2 CFR § 200.516(a)? | Yes |
| <i>(d) (1) (vii)</i> | Major Programs (list): Title 1 | CFDA # 84.010 |
| <i>(d) (1) (viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$750,000 Type B: All others |
| <i>(d) (1) (ix)</i> | Low Risk Auditee under 2 CFR §200.520? | Yes |

Fremont City School District
Sandusky County, Ohio
Schedule of Findings and Questioned Costs (Continued)
2 CFR Section 200.515
June 30, 2016

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

Finding Number: 2016-001 – Significant Deficiency- Food Service Reporting

Criteria: 7 CFR part 210.7(c) *Reimbursement limitations*. To be entitled to reimbursement under this part, each school food authority (School District) shall ensure that Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meals supplements, respectively, for each day of operation.

7 CFR part 210.7(c)(1) *Lunch Count System*. To ensure that the Claim Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum:

- Base Claims for Reimbursement on lunch counts, taken daily at the point of service, which correctly identify the number of free, reduced price and paid lunches served to eligible children
- Correctly record, consolidate and report those lunch and supplement counts on the Claim for Reimbursement; and
- Ensure that Claims for reimbursement do not request payment for any excess lunches produced as prohibited in 7 CFR 210.10(a)(2) or non-Program lunches or for more than one meal supplement per child per day.

Condition: During our testing we noted that the meal counts obtained from the point-of-sale (POS) system for four months did not agree to the amounts identified and received for reimbursement. The POS system report utilized overstated the meal counts that were included on the monthly claims reporting reimbursements.

Cause: The School District utilized the incorrect POS system report to complete the monthly claims report on the ODE Claims Reimbursement and Reporting System.

Effect: The result is incorrect reimbursements for free, reduced price and paid lunches and meals supplements.

Recommendation: We recommend the School District implement internal control procedures for a supervisor to review and approve the monthly claims reports prior to submission in the ODE Claims Reimbursement and Reporting System.

Management’s Response: See corrective action plan already underway.

Fremont City School District
Sandusky County, Ohio
Schedule of Findings and Questioned Costs (Continued)
2 CFR Section 200.515
June 30, 2016

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

Finding Number: 2016-002 – Significant Deficiency/Non-Compliance – Allowable Costs/Cost Principles

Federal Programs: Title I

CFDA Numbers: 84.010

Federal Award Number/Year: 2015/2016

Federal Agency: U.S. Department of Education

Pass-Through Entity: Ohio Department of Education (ODE)

Criteria: For an employee who works on multiple activities or cost objectives (e.g., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities that are not part of the same cost objective), an Local Educational Agency (LEA) must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of time and effort dedicated to: (i) The Federal program or cost objective; and (ii) Each other program or cost objective supported by consolidated Federal funds or other revenue sources.

Condition: During our testing we noted the School District recorded expenditures to the Title I program related to salary costs in excess of the amount approved on the approved semi-annual certificate. We also noted 1 out of 6 employees selected for testing had salary costs recorded to two cost objectives and the School District only maintained semi-annual certificates to support these costs.

Cause: The District did not implement policies and procedures to ensure complete and accurate standards for documentation of personnel expenses.

Effect: The result of this is an increased risk of non-compliance related to allowable costs and cost principles.

Recommendation: We recommend the School District establish procedures to maintain complete and accurate standards for documentation of personnel expenses.

Management's Response: See corrective action plan.

Fremont City School District
Sandusky County, Ohio
Schedule of Findings and Questioned Costs (Continued)
2 CFR Section 200.515
June 30, 2016

| |
|---|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS(Continued) |
|---|

Finding Number: 2016-003 – Significant Deficiency/Non-Compliance - Eligibility

Federal Programs: Title I

CFDA Numbers: 84.010

Federal Award Number/Year: 2015/2016

Federal Agency: U.S. Department of Education

Pass-Through Entity: Ohio Department of Education (ODE)

Criteria: According to the U.S. Department of Education Program Specific Requirements a school “must determine which school attendance areas are eligible to participate in Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent.” When creating the building eligibility plan per ODE guidance from their bulletin dated February 27th, 2009 it states “After you have entered the adjusted enrollment and number of low-income students, the spreadsheet will automatically place a check mark by the buildings that are eligible for Title I service”.

Condition: During our testing we noted salary and benefit expenditures recorded in the Title I program for intervention tutor services provided to three ineligible schools. The School District subsequent received approval from ODE to make the necessary corrections to the Final Expenditure Report and to the accounting ledgers.

Cause: The three school buildings referenced above were eligible to receive Title I services however we noted the building eligibility page on the ODE CCIP system indicated the three schools that were provided the above services were listed as no services provided in the eligibility for service column.

Effect: The result of this is an increased risk of non-compliance for the School District related to services being provided to ineligible buildings or students.

Recommendation: We recommend the School District implement procedures to ensure the building eligibility page on the ODE CCIP system is properly completed and Title I expenditures are only recorded for services provided to eligible buildings.

Management’s Response: See corrective action plan.

Fremont City School District
Sandusky County, Ohio
Corrective Action Plan
2 CFR § 200.511(c)
June 30, 2016

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|-----------------------|--|---|--|
| 2016-001 | <p>The correct reports with applicable criteria for reimbursable meals are to be used to support the monthly claim to the Claims Reimbursement & Reimbursement Site (CRRS) for the Ohio Department of Education (ODE).</p> <p>Only reimbursable meals are to be selected from the Meal Magic Point-of-Sale (POS) program. This will achieve correct claiming of free, reduced-price and paid meals. The claim is prepared and entered by the Child Nutrition Supervisor, who reports to the Director of Facilities & Operations. The Director will review and approve the reports from the POS system, prior to claims entry in CRRS.</p> <p>Corrected claims have been submitted on the CRRS system and ODE has invoiced the school for the amount of over-reimbursement.</p> | Will be effective with the December 2016 claim. | <p>Amelia Gioffredo</p> <p>Tom Anway</p> <p>Child Nutrition Supervisor</p> |
| 2016-002 | <p>Together with the Curriculum Department, the Treasurer’s Office will aid in producing appropriate time-and-effort documentation for all employees paid from multiple cost objectives.</p> <p>The District will, beginning with January 2017, prepare bi-weekly (to coincide with payroll cycles) time-and-effort documentation for employees paid from multiple Federal funds. Should the time spent on each different cost objective change between pay cycles, the allocation percentages will be modified for payroll distribution.</p> <p>The District will try to minimize the number of employees paid from multiple Federal funds, although this may prove to be counter-productive for those employees who’ve responsibilities for multiple Federal grant initiatives.</p> | Will be effective with the January 2017 payroll. | <p>Amelia Gioffredo</p> <p>Denice Hirt</p> |
| 2016-003 | <p>The Treasurer will ensure building budgets are created only for those buildings that are both eligible and identified to receive Title I services.</p> <p>The Directors who are responsible for Federal Programs will ensure, along with the Treasurer’s Office, that only Title I-eligible building, and those identified as “eligible for services” have Title I supported services. No costs will be allocated to buildings not identified to receive services.</p> <p>ODE allowed the School to open in the 2016 Final Expenditure Report to remove the costs for the ineligible buildings and carry over the grant allocation to the subsequent year.</p> | District has reviewed and ensured only Title I-eligible buildings have allocated costs. | <p>Amelia Gioffredo</p> <p>Denice Hirt</p> |



Dave Yost • Auditor of State

FREMONT CITY SCHOOL DISTRICT

SANDUSKY 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
MARCH 2, 2017**