

Allen East Local School District Allen County

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Education
Allen East Local School District
9105 Harding Highway
Harrod, Ohio 45850

We have reviewed the *Independent Auditor's Report* of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Allen East Local 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

December 14, 2012

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**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis	11
Statement of Activities – Cash Basis	12
Fund Financial Statements:	
Statement of Assets and Fund Balances – Cash Basis – Governmental Funds	13
Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds	14
Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual-Budget Basis – General Fund	15
Statement of Fiduciary Net Assets – Cash Basis	16
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Fund	17
Notes to the Basic Financial Statements	18
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 <i>Government Auditing Standards</i>	42
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	44
Schedule of Expenditures of Federal Awards – Cash Basis	46
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis	47
Schedule of Findings and Questioned Costs	48
Schedule of Prior Audit Findings	50

September 21, 2012

The Board of Education
Allen East Local School District
Allen County
9105 Harding Highway
Harrod, Ohio 45850

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Hea & Associates, Inc.

Allen East Local School District
Allen County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

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

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets decreased \$1,497,680, mostly due to capital outlay disbursements as a result of the completion of the Ohio School Facilities Commission ("OSFC") project.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Allen East School District as a whole, entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next 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 non-major funds presented in total in one column. For fiscal year 2012, the general fund, bond retirement fund, permanent improvement fund and OSFC local/state share fund are the School District's most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change 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 which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the general fund, bond retirement fund, permanent improvement fund and the OSFC local/state share fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund 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.

Reporting the School District's Fiduciary Responsibilities

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

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2012 compared to 2011.

**(Table 1)
Net Assets – Cash Basis**

	Governmental Activities	
	2012	2011
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 6,155,894	\$ 7,209,155
Cash and Cash Equivalents in Segregated Accounts	0	444,419
<i>Total Assets</i>	6,155,894	7,653,574
Net Assets		
Restricted for:		
Capital Outlay	1,157,672	3,310,228
Debt Service	626,953	238,295
Permanent Fund		
Expendable	24	23
Non-expendable	2,000	2,000
Other Purposes	471,249	476,148
Unrestricted	3,897,996	3,626,880
<i>Total Net Assets</i>	\$ 6,155,894	\$ 7,653,574

Net assets of the governmental activities decreased \$1,497,680, which represents a 20 percent decrease from fiscal year 2011. The decrease is the result of capital outlay disbursements as a result of the completion of the OSFC building project.

A portion of the School District's net assets, \$2,257,898 or 37 percent, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$3,897,996 may be used to meet the School District's ongoing obligations.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Table 2 shows the changes in net assets for fiscal year 2012 as compared to fiscal year 2011.

**(Table 2)
Changes in Net Assets – Cash Basis**

	Governmental Activities	
	2012	2011
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 1,128,417	\$ 1,046,082
Operating Grants, Contributions and Interest	911,065	705,777
Capital Grants, Contributions and Interest	989	30,557
<i>Total Program Receipts</i>	<u>2,040,471</u>	<u>1,782,416</u>
General Receipts		
Property Taxes	2,984,022	2,904,065
Grants and Entitlements not Restricted to Specific Programs	5,382,086	5,499,135
Interest	4,166	5,997
Miscellaneous	40,716	68,448
<i>Total General Receipts</i>	<u>8,410,990</u>	<u>8,477,645</u>
<i>Total Receipts</i>	<u>10,451,461</u>	<u>10,260,061</u>
Program Disbursements		
Instruction:		
Regular	4,094,443	4,150,979
Special	1,047,109	629,556
Other	457,484	429,305
Support Services:		
Pupils	353,847	601,159
Instructional Staff	200,633	212,806
Board of Education	33,904	32,197
Administration	579,759	657,662
Fiscal	301,093	288,622
Business	40,851	39,293
Operation and Maintenance of Plant	913,749	869,244
Pupil Transportation	571,718	528,489
Central	237,139	226,747
Operation of Non-Instructional Services:		
Food Service Operations	439,167	436,108
Extracurricular Activities	309,874	302,665
Capital Outlay	1,797,744	93,421
Debt Service:		
Principal Retirement	310,000	305,000
Interest and Fiscal Charges	260,627	271,616
<i>Total Program Disbursements</i>	<u>11,949,141</u>	<u>10,074,869</u>
<i>Change in Net Assets</i>	(1,497,680)	185,192
<i>Net Assets Beginning of Year</i>	<u>7,653,574</u>	<u>7,468,382</u>
<i>Net Assets End of Year</i>	<u>\$ 6,155,894</u>	<u>\$ 7,653,574</u>

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

The variances in special instruction and pupils support services from fiscal year 2011 to 2012 are the result of the School District's classification of excess costs to more accurately reflect the program disbursements.

Governmental Activities

Several receipt sources fund the School District's governmental activities with the charges for sales and services being the largest contributor. Charges for sales and services provided \$1.1 million in fiscal year 2012. Property tax levies generated \$3 million in fiscal year 2012. With the combination of taxes and school foundation funding of 70 percent of disbursements in governmental activities, the School District monitors both of these receipt sources very closely for fluctuations.

The majority of program disbursements for governmental activities are for instruction, which accounts for 47 percent of all governmental disbursements. The availability of Federal Stimulus funds accounts for the fluctuation in instruction disbursements. Other programs which support the instruction process account for 27 percent of total governmental disbursements. The remaining 26 percent of the School District's disbursements are related to the primary functions of delivering education and providing facilities.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**(Table 3)
Governmental Activities – Cash Basis**

	Total Costs of Services		Net Costs of Services	
	2012	2011	2012	2011
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 4,094,443	\$ 4,150,979	\$ (3,323,130)	\$ (3,497,588)
Special	1,047,109	629,556	(665,725)	(480,021)
Other	457,484	429,305	(455,487)	(428,365)
Support Services:				
Pupils	353,847	601,159	(301,536)	(338,040)
Instructional Staff	200,633	212,806	(200,633)	(211,499)
Board of Education	33,904	32,197	(33,904)	(32,197)
Administration	579,759	657,662	(579,759)	(657,662)
Fiscal	301,093	288,622	(301,093)	(288,622)
Business	40,851	39,293	(40,851)	(39,293)
Operation and Maintenance of Plant	913,749	869,244	(750,182)	(761,111)
Pupil Transportation	571,718	528,489	(477,468)	(528,489)
Central	237,139	226,747	(237,139)	(221,747)
Operation of Non-Instructional Services:				
Food Service Operations	439,167	436,108	26,446	18,987
Extracurricular Activities	309,874	302,665	(200,827)	(187,325)
Capital Outlay	1,797,744	93,421	(1,796,755)	(62,865)
Debt Service:				
Principal Retirement	310,000	305,000	(310,000)	(305,000)
Interest and Fiscal Charges	260,627	271,616	(260,627)	(271,616)
Total	\$ 11,949,141	\$ 10,074,869	\$ (9,908,670)	\$ (8,292,453)

Allen East Local School District
Allen County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The dependence upon tax revenues and general revenue entitlements from the state for governmental activities is apparent. Program revenues only account for 17 percent of all governmental expenses. The community is the largest area of support for the School District students.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's four major governmental funds reported a combined fund balance of \$5,634,928, which is lower than the prior year balance of \$7,115,806.

The general fund had total cash receipts of \$8,315,123. The cash disbursements of the general fund totaled \$8,054,743. The general fund's fund balance increased \$260,380 in 2012. The increase in fund balance can be attributed to increases in intergovernmental and tuition and fees receipts.

The bond retirement fund had total cash receipts and other financing sources of \$971,256 and total cash disbursements of \$582,598, for an increase in fund balance of \$388,658 in 2012. The increase in fund balance is primarily due to the transfer in of funds from the completion of the School District's OSFC project in 2012. See Note 19 for additional information on transfers.

The permanent improvement fund had total cash receipts and other financing sources of \$1,010,844 and total cash disbursements of \$178,005, for an increase in fund balance of \$832,839 in 2012. The increase in fund balance is primarily due to the transfer in of funds from the completion of the School District's OSFC project in 2012. See Note 19 for additional information on transfers.

The OSFC local/share fund had total cash receipts of \$784 and total cash disbursements and other financing uses of \$2,963,539, for a decrease in fund balance of \$2,962,755 in 2012. The decrease in fund balance is due to the completion of the School District's OSFC project in 2012 and transfer of remaining funds to the bond retirement and permanent improvement funds. See Note 19 for additional information on transfers.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the School District did not amend its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control site budgets but provide flexibility for site management. Actual receipts of \$8,218,198 were \$57,993 higher than the final budget. Of this increase, most was attributable to an increase in intergovernmental receipts.

Actual disbursements of \$8,022,412 were \$3,223,233 lower than the final budget. Actual instruction, operation and maintenance of plant, pupil transportation and administration disbursements were significantly under budgeted expectations. This was due to disbursements were fully appropriated and budgeted higher than usual to ensure for any possible increases in costs.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2012 and 2011.

**(Table 4)
Outstanding Debt, at June 30**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
2004 Refunding Bonds - Serial, Term and Capital Appreciation Bonds	\$1,085,683	\$1,272,645
2007 Refunding Bonds - Serial, Term and Capital Appreciation Bonds	5,870,479	5,885,063
<i>Total</i>	<u>\$6,956,162</u>	<u>\$7,157,708</u>

For further information regarding the School District's debt, refer to Note 9 of the basic financial statements.

Current Issues

The Allen East Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. A prior emergency levy was passed by the residents of the district in November 1994, with the promise that the revenue generated by a levy would provide sufficient funding for five years. In March 2012, the Board of Education submitted a new emergency levy, which was approved by the residents.

The Board of Education implemented open enrollment in fiscal year 2006-2007 as a new receipt source. Receipts for open enrollment are expected to generate \$500,000 annually, with spending on enrollments elsewhere being approximately \$340,000.

The Board of Education also refinanced its bond debt in April, 2007. This refinancing saved the School District over \$300,000 in debt.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

Allen East Local School District
Allen County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for longer than it was planned. This has been made increasingly difficult with mandates in rising utility costs and increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our School District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Allen East Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District.

Another School District concern is the State Legislative approval of the biennial budget, which had a negative impact on the School District. How the legislature plans to fund educational programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

In the course of routine surveillance, Fitch Ratings has affirmed the AA- rating on Allen East Local School District's outstanding unlimited general obligation bonds series 2004 and 2007 which were last rated on August 11, 2009. The Rating Outlook is Stable. The AA- rating reflects the School District's strong, conservative financial management as evidenced by ample cash reserves, reliance on state aid and sparing use of expiring levies, which has insulated its reserves from the cyclical effects of periodic voter approvals that typify other Ohio school districts. The key rating driver is management's ability to continue current practices and maintain ample fiscal cushion given the economic downturn and fixed revenue streams.

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 show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rhonda Zimmerly, Treasurer of Allen East Local School District, 9105 Harding Highway, Harrod, OH 45850 or ae_treas@noacsc.org.

Allen East Local School District
Statement of Net Assets - Cash Basis
June 30, 2012

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,155,894
<i>Total Assets</i>	\$ 6,155,894
Net Assets	
Restricted for:	
Capital Outlay	\$ 1,157,672
Debt Service	626,953
Permanent Fund	
Expendable	24
Non-expendable	2,000
Other Purposes	471,249
Unrestricted	3,897,996
<i>Total Net Assets</i>	\$ 6,155,894

See accompanying notes to the basic financial statements.

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

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Receipts and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 4,094,443	\$ 722,597	\$ 48,716	\$ 0	\$ (3,323,130)
Special	1,047,109	2,299	379,085	0	(665,725)
Other	457,484	0	1,997	0	(455,487)
Support Services:					
Pupils	353,847	16,696	35,615	0	(301,536)
Instructional Staff	200,633	0	0	0	(200,633)
Board of Education	33,904	0	0	0	(33,904)
Administration	579,759	0	0	0	(579,759)
Fiscal	301,093	0	0	0	(301,093)
Business	40,851	0	0	0	(40,851)
Operation and Maintenance of Plant	913,749	0	163,567	0	(750,182)
Pupil Transportation	571,718	0	94,250	0	(477,468)
Central	237,139	0	0	0	(237,139)
Operation of Non-Instructional Services:					
Food Service Operations	439,167	278,809	186,804	0	26,446
Extracurricular Activities	309,874	108,016	1,031	0	(200,827)
Capital Outlay	1,797,744	0	0	989	(1,796,755)
Debt Service:					
Principal Retirement	310,000	0	0	0	(310,000)
Interest and Fiscal Charges	260,627	0	0	0	(260,627)
Totals	<u>\$ 11,949,141</u>	<u>\$ 1,128,417</u>	<u>\$ 911,065</u>	<u>\$ 989</u>	<u>(9,908,670)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	2,271,196
Debt Service	530,154
Capital Outlay	141,505
Capital Maintenance	41,167
Grants and Entitlements not Restricted to Specific Programs	5,382,086
Interest	4,166
Miscellaneous	40,716
Total General Receipts	<u>8,410,990</u>
 <i>Change in Net Assets</i>	 (1,497,680)
 <i>Net Assets Beginning of Year</i>	 <u>7,653,574</u>
 <i>Net Assets End of Year</i>	 <u>\$ 6,155,894</u>

See accompanying notes to the basic financial statements.

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

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>OSFC Local/State Share Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 3,897,996	\$ 626,953	\$ 1,157,672	\$ 0	\$ 473,273	\$ 6,155,894
<i>Total Assets</i>	<u>\$ 3,897,996</u>	<u>\$ 626,953</u>	<u>\$ 1,157,672</u>	<u>\$ 0</u>	<u>\$ 473,273</u>	<u>\$ 6,155,894</u>
Fund Balances						
Nonspendable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,000	\$ 2,000
Restricted	0	626,953	1,109,979	0	518,966	2,255,898
Assigned	<u>3,897,996</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,897,996</u>
<i>Total Fund Balances</i>	<u>\$ 3,897,996</u>	<u>\$ 626,953</u>	<u>\$ 1,109,979</u>	<u>\$ 0</u>	<u>\$ 520,966</u>	<u>\$ 6,155,894</u>

See accompanying notes to the basic financial statements.

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

	General	Bond Retirement Fund	Permanent Improvement Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$ 2,271,196	\$ 530,154	\$ 141,505	\$ 0	\$ 41,167	\$ 2,984,022
Intergovernmental	5,246,449	97,209	34,237	0	906,290	6,284,185
Investment Income	4,166	0	0	784	253	5,203
Tuition and Fees	729,029	0	0	0	0	729,029
Rent	3,441	0	0	0	0	3,441
Extracurricular Activities	12,564	0	0	0	104,738	117,302
Gifts and Donations	7,772	0	0	0	1,031	8,803
Charges for Services	0	0	0	0	278,762	278,762
Miscellaneous	40,506	0	0	0	208	40,714
Total Receipts	8,315,123	627,363	175,742	784	1,332,449	10,451,461
Disbursements						
Current:						
Instruction:						
Regular	4,048,676	0	0	0	45,766	4,094,442
Special	687,448	0	0	0	359,661	1,047,109
Other	456,192	0	0	0	1,292	457,484
Support Services:						
Pupils	319,489	0	0	0	34,358	353,847
Instructional Staff	183,202	0	0	0	17,431	200,633
Board of Education	33,904	0	0	0	0	33,904
Administration	579,759	0	0	0	0	579,759
Fiscal	284,945	11,971	3,256	0	921	301,093
Business	40,851	0	0	0	0	40,851
Operation and Maintenance of Plant	671,687	0	12,601	0	229,461	913,749
Pupil Transportation	389,723	0	81,419	0	100,577	571,719
Central	157,508	0	79,631	0	0	237,139
Extracurricular Activities	201,359	0	0	0	108,515	309,874
Operation of Non-Instructional Services:						
Food Service Operations	0	0	0	0	439,167	439,167
Capital Outlay	0	0	1,098	1,784,544	12,102	1,797,744
Debt Service:						
Principal Retirement	0	310,000	0	0	0	310,000
Interest and Fiscal Charges	0	260,627	0	0	0	260,627
Total Disbursements	8,054,743	582,598	178,005	1,784,544	1,349,251	11,949,141
Excess of Receipts Over (Under) Disbursements	260,380	44,765	(2,263)	(1,783,760)	(16,802)	(1,497,680)
Other Financing Sources (Uses)						
Transfers In	0	343,893	835,102	0	0	1,178,995
Transfers Out	0	0	0	(1,178,995)	0	(1,178,995)
Total Other Financing Sources (Uses)	0	343,893	835,102	(1,178,995)	0	0
Net Change in Fund Balances	260,380	388,658	832,839	(2,962,755)	(16,802)	(1,497,680)
Fund Balances Beginning of Year	3,637,616	238,295	277,140	2,962,755	537,768	7,653,574
Fund Balances End of Year	\$ 3,897,996	\$ 626,953	\$ 1,109,979	\$ 0	\$ 520,966	\$ 6,155,894

See accompanying notes to the basic financial statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Property and Other Local Taxes	\$ 2,287,167	\$ 2,287,167	\$ 2,271,196	\$ (15,971)
Intergovernmental	5,076,123	5,076,123	5,246,449	170,326
Investment Income	6,700	6,700	4,166	(2,534)
Tuition and Fees	725,540	725,540	688,310	(37,230)
Rent	2,200	2,200	162	(2,038)
Gifts and Donations	37,475	37,475	4,733	(32,742)
Miscellaneous	25,000	25,000	3,182	(21,818)
<i>Total Receipts</i>	<u>8,160,205</u>	<u>8,160,205</u>	<u>8,218,198</u>	<u>57,993</u>
Disbursements				
Current:				
Instruction:				
Regular	4,679,605	4,679,605	4,014,620	664,985
Special	1,121,607	1,121,607	687,562	434,045
Other	488,000	488,000	456,192	31,808
Support Services:				
Pupils	358,166	358,166	291,546	66,620
Instructional Staff	233,125	233,125	183,202	49,923
Board of Education	71,012	71,012	33,904	37,108
Administration	844,075	844,075	579,759	264,316
Fiscal	338,100	338,100	284,945	53,155
Business	57,500	57,500	40,851	16,649
Operation and Maintenance of Plant	1,801,796	1,801,796	677,494	1,124,302
Pupil Transportation	771,100	771,100	414,323	356,777
Central	195,759	195,759	157,508	38,251
Extracurricular Activities	285,800	285,800	200,506	85,294
<i>Total Disbursements</i>	<u>11,245,645</u>	<u>11,245,645</u>	<u>8,022,412</u>	<u>3,223,233</u>
<i>Excess of Receipts (Under) Over Disbursements</i>	<u>(3,085,440)</u>	<u>(3,085,440)</u>	<u>195,786</u>	<u>3,281,226</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	5,000	5,000	0	(5,000)
Refund of Prior Year Expenditures	20,000	20,000	34,958	14,958
Other Financing Uses	(525,000)	(525,000)	0	525,000
Advances In	100	100	0	(100)
Transfers In	100	100	0	(100)
<i>Total Other Financing Sources (Uses)</i>	<u>(499,800)</u>	<u>(499,800)</u>	<u>34,958</u>	<u>534,758</u>
<i>Net Change in Fund Balance</i>	(3,585,240)	(3,585,240)	230,744	3,815,984
<i>Fund Balance Beginning of Year</i>	3,553,196	3,553,196	3,553,196	0
Prior Year Encumbrances Appropriated	<u>32,044</u>	<u>32,044</u>	<u>32,044</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,815,984</u>	<u>\$ 3,815,984</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 75,071	\$ 20,173
<i>Total Assets</i>	<u>\$ 75,071</u>	<u>\$ 20,173</u>
Net Assets		
Unrestricted	\$ 0	\$ 19,762
Held in Trust for Scholarships	75,071	0
Held for Staff	0	411
<i>Total Net Assets</i>	<u>\$ 75,071</u>	<u>\$ 20,173</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

	Scholarship
Additions	
Gifts and Contributions	\$ 983
Interest	45
Miscellaneous	500
<i>Total Additions</i>	1,528
 Deductions	
Scholarships	2,500
<i>Total Deductions</i>	2,500
<i>Change in Net Assets</i>	(972)
<i>Net Assets Beginning of Year</i>	76,043
<i>Net Assets End of Year</i>	\$ 75,071

See accompanying notes to the basic financial statements.

**Allen East Local School District
Allen County**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is staffed by non-certificated employees and certificated full-time teaching personnel who provide services to students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Allen East Local School District, this includes general operations, food service, 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 Allen East Local School District.

The School District is associated with two organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, Ohio School Boards Association Workers' Compensation Group Rating Plan/OASBO and the Allen County Schools Health Benefits Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**Allen East Local School District
Allen County**

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

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

Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary disbursements result from encumbrances outstanding at the beginning and end of the fiscal year.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and statement of activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the 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. The focus of governmental fund financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets or fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

Allen East Local School District
Allen County

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

1. Total assets, receipts or disbursements of that individual governmental fund is at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental fund is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds:

General Fund	The General Fund is the primary operating fund of the School District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Bond Retirement Fund	The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the Bond Retirement Fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the Bond Retirement Fund might also be used to account for the payment of the short-term debt of the governmental funds.
Permanent Improvement Fund	The permanent improvement capital projects fund accounts for all transactions related to the acquiring, constructing, or improving of such permanent improvements.
OSFC Local/State Share Fund	This fund accounts for the specific receipts to be used for the new school building project.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust fund accounts for scholarships. Agency funds are custodial in nature and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

**Allen East Local School District
Allen County**

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution Report, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution Report are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources

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

**Allen East Local School District
Allen County**

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

Appropriations

Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying a new certificate is not necessary, the annual Appropriation Resolution Report must be legally enacted by the Board of Education at the fund level of disbursements, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the School District. The Appropriation Resolution Report, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal yearend are reported as a reservation of fund balance for subsequent-year disbursements for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records.

For purposes of financial reporting, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months which were not purchased from the cash management pool are reported as investments.

Allen East Local School District
Allen County

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

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

E. Property, Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

H. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of capital assets are recorded as receipts when the grant money is received.

I. Interfund Transactions

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

1. Transfers of resources from one fund to another fund through which resources to be expended are recorded as transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

**Allen East Local School District
Allen County**

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

J. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets and is displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the school district. Net assets 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. At June 30, 2012, there was no amount restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as 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 governmental funds. The classifications are as follows:

- a. Non-spendable - The non-spendable classification 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” includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the 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.

**Allen East Local School District
Allen County**

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

- d. Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District first applies restricted resources when an expenditure is 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 can be used.

K. Receipts and Disbursements

Program Receipts

In the statement of activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, operating and capital grants, contributions and interest.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

NOTE 3 - 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.

Allen East Local School District
Allen County

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

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
8. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

Allen East Local School District
Allen County

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District and must be purchased with the expectation that it will be held to maturity.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the School District's deposits was \$1,068,754 and the bank balance was \$1,275,233. Of the bank balance, \$1,244,105 was covered by federal depository insurance and \$31,128 was collateralized but uninsured. Non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at carrying value. As of June 30, 2012, the School District had the following investments:

	Carrying Value	Investment Maturities (in years)
Mutual Funds	\$ 1,015,127	\$ 1,015,127
STAROhio	4,167,257	4,167,257
Total Carrying Value	<u>\$ 5,182,384</u>	<u>\$ 5,182,384</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, was 53 days.

Allen East Local School District
Allen County

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the 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 School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. Ohio law requires that Government & Agency Mutual Funds and STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Government & Agency Mutual Funds and STAROhio carries a credit rating of AAAM by Standard and Poor's at June 30, 2012.

Concentration of Credit Risk

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. More than 5 percent of the School District's investments are in Mutual Funds and STAROhio. These investments are 20 percent and 80 percent, respectively, of the School District's total investments for the amounts listed above.

NOTE 4 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**Allen East Local School District
Allen County**

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

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Allen 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, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 105,331,620	96%	\$ 105,318,760	96%
Public Utility Personal Property	4,763,900	4%	4,953,510	4%
Total	\$ 110,095,520	100%	\$ 110,272,270	100%
Full Tax Rate per \$1,000 of assessed valuation	\$ 38.66		\$ 39.05	

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2012, the School District contracted with Ohio School Plan/Hylant Group for property, general liability, professional liability, and automobile insurance. Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

Allen East Local School District
Allen County

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

B. Workers' Compensation

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program/OASBO ("GRP"), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control, and actuarial services to the GRP.

C. Health Care Benefits

The School District participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. This plan is administered by Medical Mutual. In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 13, the School District offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The life insurance is administered by AUL and the cafeteria 125 plan is administered by American Fidelity.

NOTE 6 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**Allen East Local School District
Allen County**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$122,334, \$113,792 and \$119,324, respectively; 39 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Allen East Local School District
Allen County

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$517,840, \$524,962 and \$508,844, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$8,641 made by the School District and \$12,098 made by the plan members.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 7 - POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

**Allen East Local School District
Allen County**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,964, \$33,084, and \$52,544, respectively; 47 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,253, \$7,323, and \$7,003, respectively; 39 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

**Allen East Local School District
Allen County**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$39,834, \$40,382, and \$39,142, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 8 - EMPLOYEE BENEFITS - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified personnel and up to 240 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit up to a maximum of 46 days for certified employees and 46 days for classified employees.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

<i>General Obligations</i>	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2012</u>	<u>Due Within One Year</u>
2004 Bond Issue						
Current Interest	2.50-3.90 percent	\$795,000	\$0	\$255,000	\$540,000	\$265,000
Capital Appreciation	13.77 percent	189,992	0	0	189,992	0
Accretion of Interest		287,653	68,038	0	355,691	0
2007 Bond Issue						
Current Interest	3.70-4.20 percent	5,775,000	0	55,000	5,720,000	60,000
Capital Appreciation	33.76-33.86 percent	29,996	0	0	29,996	0
Accretion of Interest		80,067	40,416	0	120,483	0
Total General Obligations		<u>\$7,157,708</u>	<u>\$108,454</u>	<u>\$310,000</u>	<u>\$6,956,162</u>	<u>\$325,000</u>

Allen East Local School District
Allen County

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

2004 Various Purpose General Obligation Bonds - In July 2004, the School District issued \$8,499,992 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. Current interest serial bonds and current interest term bonds in the amount of \$3,405,000 and \$4,905,000, respectively, were issued July 1, 2004. Capital appreciation bonds were issued July 29, 2004 in the amount of \$189,992. The bonds are being retired from the Bond Retirement debt service fund. The bonds with original maturities of December 1, 2017-2031, in the total amount of \$6,124,996 were refunded in April, 2007.

The current interest serial bonds will continue maturing on each December 1 through fiscal year 2014.

The capital appreciation bonds will mature in fiscal years 2015 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$855,000. For fiscal year 2012, \$68,038 was accreted for total bond value of \$545,683.

The current interest term bonds originally maturing on December 1, 2025 and December 1, 2031, have been refunded by the April, 2007 refunding bonds.

2007 Various Purpose General Obligation Refunding Bonds - In April 2007, the School District issued \$6,124,996 in voted general obligation bonds to refund the 2004 issue for the acquisition, construction, and improvement to buildings and structures at a net premium of \$566,368. Current interest serial bonds and current interest term bonds in the amount of \$1,445,000 and \$4,650,000, respectively, were issued. Capital appreciation bonds were issued in the amount of \$29,996. The bonds are being retired from the Bond Retirement debt service fund.

The current interest serial bonds will mature in fiscal years 2021-2023 on each December 1.

The capital appreciation bonds will mature in fiscal years 2018 through 2020 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$1,075,000. For fiscal year 2012, \$40,416 was accreted for total bond value of \$150,479.

The current interest term bonds maturing on December 1, 2013, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2011 and 2012. Unless otherwise called for redemption, the remaining \$60,000 principal amount of the bonds due December 1, 2013, is to be paid at stated maturity in fiscal year 2014.

The current interest term bonds maturing on December 1, 2016, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2014 and 2015. Unless otherwise called for redemption, the remaining \$70,000 principal amount of the bonds due December 1, 2016, is to be paid at stated maturity in fiscal year 2017.

Allen East Local School District
Allen County

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

The current interest term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2023 and each December 1 thereafter. Unless otherwise called for redemption, the remaining \$495,000 principal amount of the bonds due December 1, 2028, is to be paid at stated maturity in fiscal year 2029.

The current interest term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2029 and 2030. Unless otherwise called for redemption, the remaining \$560,000 principal amount of the bonds due December 1, 2031, is to be paid at stated maturity in fiscal year 2032.

Future principal and interest requirements as of June 30, 2012 are as follows:

Fiscal Year Ending June 30,	2004 Bond Issue	2007 Bond Issue	Interest/ Accretion	Total
2013	\$ 265,000	\$ 60,000	\$ 248,909	\$ 573,909
2014	275,000	60,000	230,995	565,995
2015	71,925	60,000	228,685	360,610
2016	62,959	65,000	226,185	354,144
2017	55,108	70,000	223,485	348,593
2018-2022	0	764,996	2,126,329	2,891,325
2023-2027	0	2,105,000	755,978	2,860,978
2028-2032	0	2,565,000	277,800	2,842,800
Total	<u>\$ 729,992</u>	<u>\$ 5,749,996</u>	<u>\$ 4,318,366</u>	<u>\$ 10,798,354</u>

NOTE 10 - STATUTORY RESERVES

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. During the fiscal year ended June 30, 2012, the set-aside activity was as follows:

	Capital Maintenance Reserve
Set-aside cash balance as of June 30, 2011	\$ 0
Current year set-aside requirement	189,834
Current year offsets	(182,672)
Current year qualifying disbursements	<u>(486,127)</u>
Total	<u>\$ (478,965)</u>
Balance carried forward to fiscal year 2013	<u>\$ 0</u>
Set-aside restricted balance as of June 30, 2012	<u>\$ 0</u>

**Allen East Local School District
Allen County**

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

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

NOTE 11 – FUND BALANCE

Fund balance is classified as non-spendable, 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 governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>OSFC State/Local Share</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Library Endowment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,000	\$ 2,000
Restricted for:						
Permanent Improvements	0	0	1,109,979	0	0	1,109,979
OSFC Building	0	0	0	0	47,693	47,693
Debt Service	0	626,953	0	0	0	626,953
Extracurricular Activities	0	0	0	0	40,787	40,787
Food Service Operations	0	0	0	0	179,411	179,411
Library Endowment	0	0	0	0	25	25
Classroom Maintenance	0	0	0	0	245,936	245,936
Race to the Top	0	0	0	0	447	447
Title I - 2012	0	0	0	0	2,029	2,029
Avid Grant 2012	0	0	0	0	2,501	2,501
Other Purposes	0	0	0	0	137	137
Total Restricted	<u>0</u>	<u>626,953</u>	<u>1,109,979</u>	<u>0</u>	<u>518,966</u>	<u>2,255,898</u>
Assigned for:						
Subsequent Year Appropriations	3,836,542	0	0	0	0	3,836,542
Other Purposes	23,829	0	0	0	0	23,829
Unpaid Obligations	37,625	0	0	0	0	37,625
Total Assigned	<u>3,897,996</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,897,996</u>
Total Fund Balance	<u>\$ 3,897,996</u>	<u>\$ 626,953</u>	<u>\$ 1,109,979</u>	<u>\$ 0</u>	<u>\$ 520,966</u>	<u>\$ 6,155,894</u>

**Allen East Local School District
Allen County**

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

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (“NOACSC”) is a jointly governed organization among forty-seven school districts. The jointly governed 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. Each of the governments of these schools supports NOACSC based on a per pupil charge dependent on the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent and two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Ray Burden, Executive Director, 645 South Main Street, Lima, Ohio 45804.

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district’s elected boards, and it possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Greg Bukowski, Treasurer, 3325 Shawnee Road, Lima, Ohio 45806.

NOTE 13 - GROUP PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan/OASBO - The School District participates in a group rating plan (“GRP”) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the Ohio School Boards Association/OASBO as a group insurance purchasing pool. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to cover the costs of administering the program.

Allen County Schools Health Benefits Plan - The District participates in the Allen County Schools Health Benefits Plan (the “Plan”), a public entity shared risk pool consisting of the school districts within Allen County and the Allen County Educational Service Center. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Receipt Code and provides medical and dental benefits to the employees of the participating school districts. Each participating school district’s superintendent is appointed to a Board of Directors which advises the Trustee, Allen County Educational Service Center, concerning aspects of the administration of the Plan.

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Brian Rockhold, Chairman, 1920 Slabtown Rd., Lima, Ohio 45801.

**Allen East Local School District
Allen County**

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

NOTE 14 - OPERATING LEASES

The School District is obligated under an operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights. The lease is for a term of 14,040,000 prints and began in May, 2007. There were lease payments of \$26,898 made to Dollar Leasing during fiscal year 2012.

NOTE 15 - CONTINGENCIES

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. In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2012.

Litigation – There are currently no matters in litigation with the School District as defendant.

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

The School District 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. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

NOTE 16 – CONTRACTUAL COMMITMENTS

At June 30, 2012 the School District had the following significant outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/12</u>
Frank Razinger	Design	\$ 4,800	\$ 4,800
R.D. Jones	Ground prep and asphalt	12,700	12,700
Tice Enterprises	Sidewalk and curb combination	12,200	12,200
Taylor Painting	Seal and repair parking lots	20,612	20,612
		<u>\$ 50,312</u>	<u>\$ 50,312</u>

**Allen East Local School District
Allen County**

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

NOTE 17 – ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2012, the School District prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

NOTE 18 – BUDGETARY BASIS OF ACCOUNTING

The statement of receipts, disbursements and changes in fund balance - budget and actual (cash basis) presented 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 cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Balance	
	<u>General Fund</u>
Cash basis	\$260,380
Funds budgeted elsewhere**	4,256
Adjustment for encumbrances	<u>(33,892)</u>
Budget basis	<u>\$230,744</u>

** As part of GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies, band horn rental and public student support funds.

**Allen East Local School District
Allen County**

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

NOTE 19 – TRANSFERS

During the fiscal year ended June 30, 2012, the following transfers in and out occurred:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
All Other Governmental:		
Bond Retirement	\$ 343,893	\$ 0
Permanent Improvement	835,102	0
OSFC Local/State Share	0	1,178,995
Totals	<u>\$ 1,178,995</u>	<u>\$ 1,178,995</u>

Transfers were made during fiscal year 2012 from the OSFC Local Share Fund to the bond retirement and permanent improvement funds to reclassify monies from the state that were left over from the completion of the building project.

September 21, 2012

The Board of Education
Allen East Local School District
Allen County
9105 Harding Highway
Harrod, Ohio 45850

**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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allen East Local School District (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 21, 2012, wherein we noted the School District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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 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.

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

Allen East Local School District
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
September 21, 2012

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying *Schedule of Findings and Questioned Costs* as item #2012-01.

Allen East Local School District's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Hea & Associates, Inc.

September 21, 2012

The Board of Education
Allen East Local School District
Allen County
9105 Harding Highway
Harrod, Ohio 45850

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Allen East Local School District (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School District's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Allen East Local School District complied, in all material respects, with the 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, 2012.

Allen East Local School District
Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct And Material
Effect on Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133
September 21, 2012

Internal Control over Compliance

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Kea & Associates, Inc.

**ALLEN EAST LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-cash Transactions
U. S. Department of Education (Passed Through Ohio Department of Education):					
<i>Title I Cluster</i>					
Title I Grants to Local Education Agencies	84.010	2011	\$ 17,007	\$ 16,406	\$ 0
Title I Grants to Local Education Agencies	84.010	2012	162,837	161,406	0
Title I Grants to Local Education Agencies -- ARRA	84.389	9320	716	754	0
Total Title I Cluster			<u>180,560</u>	<u>178,566</u>	<u>0</u>
Title II-A Improving Teacher Quality	84.367	2012	24,038	24,038	0
Title II-D Education Technology	84.318	2012	1,292	1,292	0
Education Jobs Fund Grant	84.410	2011	0	14,645	0
Education Jobs Fund Grant	84.410	2012	218,162	218,162	0
Total Education Jobs Fund Grant			<u>218,162</u>	<u>232,807</u>	<u>0</u>
Race-to-the-Top Incentive Grants -- ARRA	84.395	2011	0	0	0
Race-to-the-Top Incentive Grants -- ARRA	84.395	2012	32,577	34,358	0
Race-to-the-Top Incentive Grants -- ARRA - Network Grant	84.395	2012	8,940	8,493	0
Race-to-the-Top Incentive Grants -- ARRA - AVID Grant	84.395	2012	15,736	13,236	0
			<u>57,253</u>	<u>56,087</u>	<u>0</u>
<i>Special Education Cluster</i>					
IDEA-B, Special Education Grants to States	84.027	2012	198,525	198,525	0
Total U.S. Department of Education			<u>679,830</u>	<u>691,315</u>	<u>0</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition Cluster:					
Commodity Distribution Program	10.555	2012	28,692	0	28,692
School Breakfast Program	10.553	2012	17,119	17,119	0
National School Lunch Program	10.555	2012	166,191	166,191	0
Total Nutrition Cluster			<u>212,002</u>	<u>183,310</u>	<u>28,692</u>
Total U.S. Department of Agriculture			<u>212,002</u>	<u>183,310</u>	<u>28,692</u>
Total Federal Assistance			<u>\$ 891,832</u>	<u>\$ 874,625</u>	<u>\$ 28,692</u>

See notes to the Schedule of Expenditures of Federal Awards.

**Allen East Local School District
Allen County**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2012*

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

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

NOTE D - TRANSFERS

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfer:

CFDA	Program			
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.389	Title I- Grants to Local Education Agencies	2011	\$ 602	
84.389	Title I- Grants to Local Education Agencies	2012		\$ 602
84.395	Race-to-the-Top Incentive Grants – ARRA	2011	1,781	
84.395	Race-to-the-Top Incentive Grants – ARRA	2012		1,781

**Allen East Local School District
Allen County**

*Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2012*

1. SUMMARY OF AUDITOR'S RESULTS
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Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	Yes
Federal Awards	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	Education Jobs Fund Grant CFDA #84.410
Dollar threshold used to distinguish between Type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**Allen East Local School District
Allen County**

*Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2012*

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

**FINDING #2012-01 (Repeat from FY11)
Material Noncompliance**

Criteria: Ohio Administrative Code Section 117-2-03 requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.

Condition Found: For fiscal year 2012, the School District prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Effect: The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Recommendations: The School District should implement procedures to prepare its annual financial report in accordance with generally accepted accounting principles.

Corrective Action: Contact Person: Rhonda Zimmerly, Treasurer
No corrective action will be implemented. The School District plans to continue reporting on the cash basis of accounting.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

**Allen East Local School District
Allen County**

*Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis of accounting.



Dave Yost • Auditor of State

ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN 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
DECEMBER 27, 2012**