

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
*(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2012***

SHANE E. BAUMGARDNER, TREASURER



Dave Yost • Auditor of State

Board of Education
Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, Ohio 43440

We have reviewed the *Independent Accountants' Report* of the Danbury Local School District, Ottawa County, prepared by Julian & Grube, 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 Danbury 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 17, 2012

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Julian & Grube, Inc.

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Independent Accountants' Report

Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, OH 43440

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Danbury Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Danbury Local 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 Danbury Local 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 accounting principles generally accepted in the United States of America. 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, its major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa 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 fiscal year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of the Danbury Local 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*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the Danbury Local School District's financial statements taken as a whole. Management's Discussion and Analysis on pages 3 through 12 include tables of net cash assets, change in net cash assets, governmental activities, governmental funds and long-term obligations. These tables provide additional information, but are not part of the basic financial statements. However these tables 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 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.



Julian & Grube, Inc.
October 12, 2012

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of the Danbury Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2012, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The total net cash assets of the District increased \$271,899 or 9.28% from fiscal year 2011.
- General cash receipts accounted for \$9,465,902 or 90.12% of total governmental activities cash receipts. Program specific cash receipts accounted for \$1,037,628 or 9.88% of total governmental activities cash receipts.
- The District had \$10,231,631 in cash disbursements related to governmental activities; \$1,037,628 of these cash disbursements were offset by program specific charges for services, grants or contributions.
- The District's major fund is the general fund. The general fund had cash receipts of \$9,823,055 in 2012. The cash disbursements and other financing uses of the general fund totaled \$9,530,604 in 2012. The general fund's cash balance increased \$292,451 or 10.27% from 2011 to 2012.

Using the Basic Financial Statements (BFS)

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

The statement of net assets - cash basis and statement of activities - cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, there is one major governmental fund.

Reporting the District as a Whole

Statement of Net Assets - Cash Basis and the Statement of Activities - Cash Basis

The statement of net assets - cash basis and statement of activities - cash basis answer the question, "How did we do financially during 2012?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the District's net cash assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the District as a whole, the cash basis financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

In the statement of net assets - cash basis and statement of activities - cash basis the governmental activities include District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The statement of net assets - cash basis and statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund. The analysis of the District's major governmental funds begins on page 9.

Governmental Funds

Most of the 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, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash assets and fund cash balances or changes in net cash assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 15-16 of this report.

The District's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the general fund is presented to demonstrate the District's compliance with annually adopted budgets. The budgetary statement can be found on page 17 of this report.

Fiduciary Funds

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District's only fiduciary funds are a private-purpose trust fund and an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets cash basis and changes in fiduciary net assets cash basis on pages 18-19. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-41 of this report.

Government-Wide Financial Analysis

Recall that the statement of net assets - cash basis provides the perspective of the District as a whole.

The table below provides a summary of the District's net cash assets at June 30, 2012 and June 30, 2011.

	Net Cash Assets	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 3,201,694	\$ 2,928,593
Cash in segregated accounts	<u>-</u>	<u>1,202</u>
Total assets	<u>3,201,694</u>	<u>2,929,795</u>
<u>Net Cash Assets</u>		
Restricted	62,170	82,722
Unrestricted	<u>3,139,524</u>	<u>2,847,073</u>
Total net cash assets	<u>\$ 3,201,694</u>	<u>\$ 2,929,795</u>

The total net cash assets of the District increased \$271,899 which represents a 9.28% increase from fiscal year 2011. The balance of government-wide unrestricted net cash assets of \$3,139,524 may be used to meet the government's ongoing obligations to citizens and creditors.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The table below shows the changes in net cash assets for fiscal year 2012 and 2011.

	Change in Net Cash Assets	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$ 557,169	\$ 439,279
Operating grants and contributions	<u>480,459</u>	<u>534,265</u>
Total program cash receipts	<u>1,037,628</u>	<u>973,544</u>
General cash receipts:		
Property and other taxes	7,788,967	7,732,343
Unrestricted grants:		
Operating	1,646,146	1,799,681
Investment earnings	15,156	36,402
Other	<u>15,633</u>	<u>19,968</u>
Total general cash receipts	<u>9,465,902</u>	<u>9,588,394</u>
Total cash receipts	<u>\$ 10,503,530</u>	<u>\$ 10,561,938</u>

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Change in Net Cash Assets	
	Governmental Activities <u>2012</u>	Restated Governmental Activities <u>2011</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 4,283,869	\$ 4,483,522
Special	723,732	679,198
Vocational	68,449	40,414
Adult	56,089	62,610
Other	20,694	14,481
Support services:		
Pupil	472,274	492,711
Instructional staff	714,034	721,777
Board of education	61,344	114,955
Administration	896,869	898,558
Fiscal	358,979	421,620
Operations and maintenance	784,770	966,603
Pupil transportation	492,880	412,426
Central	18,611	16,758
Operation of non instructional services	45,948	46,919
Food service operations	296,563	292,869
Extracurricular	387,253	379,832
Facilities acquisition and construction	84,440	3,088,405
Debt service:		
Principal retirement	410,000	125,000
Interest and fiscal charges	<u>54,833</u>	<u>58,257</u>
 Total cash disbursements	 <u>10,231,631</u>	 <u>13,316,915</u>
 Change in net cash assets	 271,899	 (2,754,977)
Net cash assets at beginning of year	<u>2,929,795</u>	<u>5,684,772</u>
 Net cash assets at end of year	 <u>\$ 3,201,694</u>	 <u>\$ 2,929,795</u>

Governmental Activities

Governmental net cash assets increased by \$271,899 in 2012 from 2011. Total governmental disbursements of \$10,231,631 were offset by program receipts of \$1,037,628 and general receipts of \$9,465,902. Program receipts supported 10.14% of the total governmental disbursements. The largest governmental disbursement was instructional expenditures which totaled \$5,152,833.

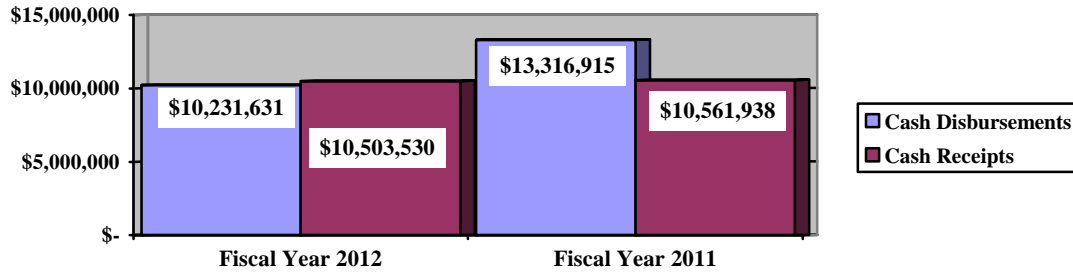
The primary sources of receipts for governmental activities are derived from taxes, and unrestricted grants and entitlements. These receipt sources represent 89.83% of total governmental receipts. Real estate property is reappraised every six years.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The graph below presents the District's governmental activities cash receipts and disbursements for fiscal years 2012 and 2011.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Cash disbursements:				
Instruction:				
Regular	\$ 4,283,869	\$ 3,874,679	\$ 4,483,522	\$ 4,113,846
Special	723,732	617,952	679,198	518,103
Vocational	68,449	67,621	40,414	9,550
Adult	56,089	56,089	62,610	62,610
Other	20,694	4,800	14,481	11,242
Support services:				
Pupil	472,274	462,868	492,711	485,886
Instructional staff	714,034	602,460	721,777	696,953
Board of education	61,344	61,344	114,955	114,955
Administration	896,869	896,215	898,558	898,558
Fiscal	358,979	358,979	421,620	421,620
Operations and maintenance	784,770	784,410	966,603	966,283
Pupil transportation	492,880	479,164	412,426	380,525
Central	18,611	18,611	16,758	11,758
Operation of non instructional services	45,948	45,948	46,919	46,919
Food service operations	296,563	32,881	292,869	40,486
Extracurricular	387,253	280,719	379,832	295,665
Facilities acquisition and construction	84,440	84,440	3,088,405	3,085,155
Debt service:				
Principal retirement	410,000	410,000	125,000	125,000
Interest and fiscal charges	54,833	54,833	58,257	58,257
Total	<u>\$ 10,231,631</u>	<u>\$ 9,194,013</u>	<u>\$ 13,316,915</u>	<u>\$ 12,343,371</u>

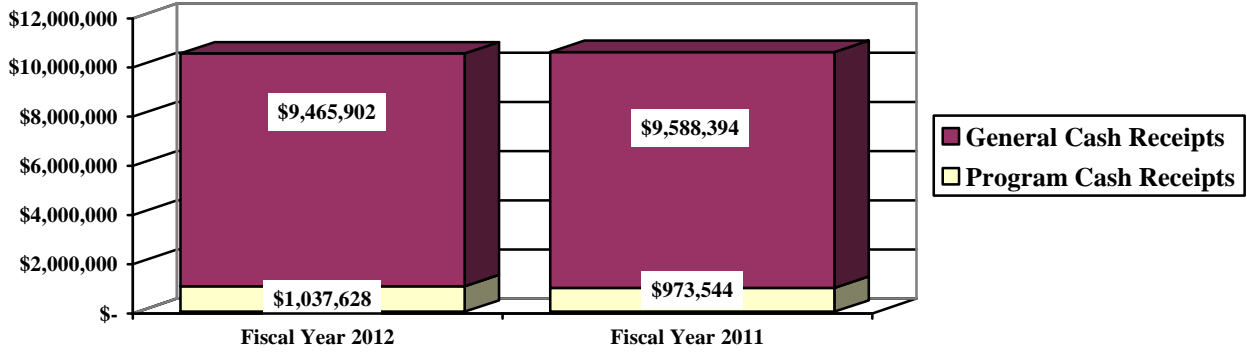
The dependence upon general cash receipts for governmental activities is apparent; with only 10.14% of cash disbursements supported through program cash receipts during 2012.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The graph below presents the District's governmental activities cash receipts for fiscal years 2012 and 2011.

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

The District's governmental funds reported a combined fund cash balance of \$3,201,694, which is \$271,899 higher than last year's total of \$2,929,795. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2012 and June 30, 2011, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2012</u>	Fund Cash Balance <u>June 30, 2011</u>	Increase <u>(Decrease)</u>
General	\$ 3,139,524	\$ 2,847,073	\$ 292,451
Other nonmajor governmental funds	<u>62,170</u>	<u>82,722</u>	<u>(20,552)</u>
Total	<u>\$ 3,201,694</u>	<u>\$ 2,929,795</u>	<u>\$ 271,899</u>

General Fund

The District's major fund is the general fund. The general fund had cash receipts of \$9,823,055 in 2012. The cash disbursements and other financing uses of the general fund totaled \$9,530,604 in 2012. The general fund's cash balance increased \$292,451 or 10.27% from 2011 to 2012.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The table that follows assists in illustrating the cash receipts of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 7,788,967	\$ 7,732,343	0.73 %
Tuition	309,912	188,485	64.42 %
Earnings on investments	15,156	36,402	(58.36) %
Extracurricular	19,681	22,457	(12.36) %
Other local revenues	29,477	50,826	(42.00) %
Intergovernmental	<u>1,659,862</u>	<u>1,831,584</u>	(9.38) %
Total	<u>\$ 9,823,055</u>	<u>\$ 9,862,097</u>	(0.40) %

Overall, general fund cash receipts remained consistent with prior year, with a decrease of 0.40%. The increase in tuition of \$121,427 or 64.42% was due to an increase in open enrollment. Intergovernmental receipts decreased \$171,722 or 9.38% due to a decrease in State foundation revenues recorded in the general fund.

The table that follows assists in illustrating the disbursements of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 4,964,535	\$ 4,963,104	0.03
Support services	3,670,939	4,007,443	(8.40)
Operation of non instruction	45,948	46,919	(2.07)
Extracurricular	300,228	293,334	2.35
Facilities acquisition and construction	54,121	1,097,990	(95.07)
Debt service	<u>464,833</u>	<u>183,257</u>	153.65
Total	<u>\$ 9,500,604</u>	<u>\$ 10,592,047</u>	(10.30)

The increase in debt service disbursements was due to an extra principal payment made on the District's lease purchase agreement entered into on March 31, 2010 (See Note 7). The decrease in facilities acquisition and construction disbursements was due to a completion of facility improvements made during fiscal year 2011.

Budgeting Highlights - General Fund

The 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.

For the general fund, final budgeted receipts and other financing sources of \$9,766,390 were lower than the original budget estimates of \$9,806,720. Actual cash receipts and other financing sources of \$9,766,228 were lower than final budget estimates by \$162.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The final and original budgetary basis disbursements and other financing uses were \$11,326,800. The actual budgetary basis disbursements and other financing uses of \$9,714,216 were \$1,612,584 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of \$84,440 during fiscal year 2012.

Debt Administration

At June 30, 2012, the District had \$590,000 in lease purchase obligations outstanding and \$880,931 in qualified school construction bonds outstanding. Of this total \$115,000 is due within one year and \$1,355,931 is due in more than one year. The following table summarizes the obligations outstanding.

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Lease purchase obligation	\$ 590,000	\$ 940,000
Qualified School Construction Bonds	<u>880,931</u>	<u>940,931</u>
Total long-term obligations	<u>\$ 1,470,931</u>	<u>\$ 1,880,931</u>

Refer to Note 8 to the basic financial statements for further detail.

Current Financial Related Activities

The District is heavily dependent on general property tax (real estate) and is currently at the 20-mil floor. The District is projecting a significantly lower than historical average valuation growth and is in anticipation of pending property tax exemption applications.

The District expects a continued lowering of the level of “guarantee” foundation per pupil funding from the State of Ohio.

Enrollment for the District is currently stagnant. Much of the new construction and development within the District is not primary family dwellings but instead vacation homes. Development of the interior of the peninsula is somewhat restricted while the quarry operations are still active.

The District remains the single largest full-time employer within the District, and pays a competitive wage. Staffing levels have been reduced and will continue to be reduced through attrition in an attempt to “right size” the District, considering enrollment and reductions in some receipt sources. The percentage increases related to health care costs continue to outpace any and all percentage increases to all lines of District revenue.

Purchased service disbursements continue to be an area targeted by the District for reduction whenever possible.

The District is proactive in maintaining the communities’ investments in the school’s building, grounds and infrastructure while taking a measured approach with capital outlay for equipment and improvements.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Shane E. Baumgardner, Treasurer, Danbury Local School District, 9451 E. Harbor Road, Lakeside, Ohio 43440.

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**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 3,201,694
Total assets.	\$ 3,201,694
 Net Cash Assets:	
Restricted for:	
Federally funded programs	\$ 4,288
Student activities	54,752
Other purposes	3,130
Unrestricted	3,139,524
Total net cash assets	\$ 3,201,694

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Disbursements	Program Cash Receipts		Net (Disbursements)
		Charges for Services	Operating Grants and Contributions	Receipts and Changes in Net Cash Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,283,869	\$ 343,077	\$ 66,113	\$ (3,874,679)
Special	723,732	-	105,780	(617,952)
Vocational	68,449	-	828	(67,621)
Adult/continuing	56,089	-	-	(56,089)
Other	20,694	-	15,894	(4,800)
Support services:				
Pupil	472,274	-	9,416	(462,858)
Instructional staff	714,034	-	111,574	(602,460)
Board of education	61,344	-	-	(61,344)
Administration	896,869	-	654	(896,215)
Fiscal	358,979	-	-	(358,979)
Operations and maintenance	784,770	360	-	(784,410)
Pupil transportation	492,880	-	13,716	(479,164)
Central	18,611	-	-	(18,611)
Operation of non-instructional services:				
Other non-instructional services	45,948	-	-	(45,948)
Food service operations	296,563	126,713	136,969	(32,881)
Extracurricular activities	387,253	87,019	19,515	(280,719)
Facilities acquisition and construction	84,440	-	-	(84,440)
Debt service:				
Principal retirement	410,000	-	-	(410,000)
Interest and fiscal charges	54,833	-	-	(54,833)
Totals	<u>\$ 10,231,631</u>	<u>\$ 557,169</u>	<u>\$ 480,459</u>	<u>(9,194,003)</u>

General Cash Receipts:

Property taxes levied for:	
General purposes	7,788,967
Grants and entitlements not restricted to specific programs	1,646,146
Investment earnings	15,156
Miscellaneous	15,633
Total general revenues	<u>9,465,902</u>
Change in net assets	271,899
Net cash assets at beginning of year	<u>2,929,795</u>
Net cash assets at end of year	<u>\$ 3,201,694</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,139,524	\$ 62,170	\$ 3,201,694
Total assets	\$ 3,139,524	\$ 62,170	\$ 3,201,694
Fund Cash Balances:			
Restricted:			
Food service operations	\$ -	\$ 3,130	\$ 3,130
Other purposes.	-	4,288	4,288
Extracurricular.	-	54,752	54,752
Assigned:			
Student instruction	52,009	-	52,009
Student and staff support.	177,739	-	177,739
Extracurricular activities	3,513	-	3,513
Facilities acquisition and construction	6,281	-	6,281
Public school support	13,161	-	13,161
Other purposes.	2,491	-	2,491
Unassigned	2,884,330	-	2,884,330
Total fund cash balances	\$ 3,139,524	\$ 62,170	\$ 3,201,694

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 7,788,967	\$ -	\$ 7,788,967
Tuition	309,912	-	309,912
Earnings on investments	15,156	-	15,156
Charges for services	-	125,713	125,713
Extracurricular	19,681	86,970	106,651
Classroom materials and fees	13,331	-	13,331
Rental income	360	49	409
Contributions and donations	7,870	18,007	25,877
Contract services	153	-	153
Other local revenues	7,763	2,508	10,271
Intergovernmental - state	1,659,862	10,357	1,670,219
Intergovernmental - federal	-	436,871	436,871
Total cash receipts	<u>9,823,055</u>	<u>680,475</u>	<u>10,503,530</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	4,218,195	65,674	4,283,869
Special	617,975	105,757	723,732
Vocational	67,621	828	68,449
Adult/continuing	56,089	-	56,089
Other	4,655	16,039	20,694
Support services:			
Pupil	462,741	9,533	472,274
Instructional staff	595,776	118,258	714,034
Board of education	61,344	-	61,344
Administration	896,067	802	896,869
Fiscal	358,979	-	358,979
Operations and maintenance	784,770	-	784,770
Pupil transportation	492,880	-	492,880
Central	18,382	229	18,611
Operation of non-instructional services:			
Operation of non-instructional	45,948	-	45,948
Food service operations	-	296,563	296,563
Extracurricular activities	300,228	87,025	387,253
Facilities acquisition and construction	54,121	30,319	84,440
Debt service:			
Principal retirement	410,000	-	410,000
Interest and fiscal charges	54,833	-	54,833
Total cash disbursements	<u>9,500,604</u>	<u>731,027</u>	<u>10,231,631</u>
Excess (deficiency) of receipts over (under) disbursements	<u>322,451</u>	<u>(50,552)</u>	<u>271,899</u>
Other financing sources (uses):			
Transfers in	-	30,000	30,000
Transfers (out)	(30,000)	-	(30,000)
Total other financing sources (uses)	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Net change in fund balances	292,451	(20,552)	271,899
Fund cash balances at			
beginning of year	<u>2,847,073</u>	<u>82,722</u>	<u>2,929,795</u>
Fund cash balances at end of year	<u>\$ 3,139,524</u>	<u>\$ 62,170</u>	<u>\$ 3,201,694</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 7,821,133	\$ 7,788,967	\$ 7,788,967	\$ -
Tuition.	281,087	279,931	279,931	-
Earnings on investments	15,381	15,318	15,156	(162)
Extracurricular.	1,047	1,043	1,043	-
Classroom materials and fees	13,386	13,331	13,331	-
Rental income	65	65	65	-
Contributions and donations	201	200	200	-
Other local revenues	5,435	5,413	5,413	-
Intergovernmental - state	1,666,716	1,659,862	1,659,862	-
Total budgetary basis receipts	<u>9,804,451</u>	<u>9,764,130</u>	<u>9,763,968</u>	<u>(162)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	4,612,394	4,612,394	4,258,688	353,706
Special.	541,160	541,160	627,872	(86,712)
Vocational.	9,839	9,839	67,621	(57,782)
Other.	11,581	11,581	4,699	6,882
Support services:				
Pupil.	498,896	498,896	444,352	54,544
Instructional staff	736,187	736,187	596,468	139,719
Board of education	134,534	134,534	91,426	43,108
Administration.	931,696	931,696	900,793	30,903
Fiscal	445,086	445,086	379,168	65,918
Operations and maintenance.	1,087,737	1,087,737	865,141	222,596
Pupil transportation	522,038	522,038	532,100	(10,062)
Central.	8,655	8,655	18,382	(9,727)
Operation of non-instructional services	33,828	33,828	29,280	4,548
Extracurricular activities.	295,649	295,649	302,991	(7,342)
Facilities acquisition and construction	1,172,976	1,172,976	60,402	1,112,574
Debt service:				
Principal	128,750	128,750	410,000	(281,250)
Interest and fiscal charges.	60,004	60,004	54,833	5,171
Total budgetary basis disbursements	<u>11,231,010</u>	<u>11,231,010</u>	<u>9,644,216</u>	<u>1,586,794</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements.	<u>(1,426,559)</u>	<u>(1,466,880)</u>	<u>119,752</u>	<u>1,586,632</u>
Other financing sources (uses):				
Refund of prior year's expenditures	2,269	2,260	2,260	-
Transfers (out).	(95,790)	(95,790)	(70,000)	25,790
Total other financing sources (uses)	<u>(93,521)</u>	<u>(93,530)</u>	<u>(67,740)</u>	<u>25,790</u>
Net change in fund balance	(1,520,080)	(1,560,410)	52,012	1,612,422
Fund cash balance at beginning of year	2,532,918	2,532,918	2,532,918	-
Prior year encumbrances appropriated	299,400	299,400	299,400	-
Fund cash balance at end of year.	<u>\$ 1,312,238</u>	<u>\$ 1,271,908</u>	<u>\$ 2,884,330</u>	<u>\$ 1,612,422</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	<u>\$ 39,057</u>	<u>\$ 37,586</u>
 Net assets:		
Held in trust for scholarships	\$ 39,057	\$ -
Held in trust for student activities.	<u>-</u>	<u>37,586</u>
 Total net assets	<u>\$ 39,057</u>	<u>\$ 37,586</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2
Gifts and contributions	57,562
Total additions	57,564
 Deductions:	
Scholarships awarded	48,931
Change in net assets	8,633
Net assets at beginning of year	30,424
Net assets at end of year	\$ 39,057

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Danbury Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 42 non-certified and 56 certified (including administrative) full-time and part-time employees to provide services to approximately 567 students in grades K through 12 and various community groups. The District ranks 614th out of the 918 public and community school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Career Center (the "Center")

The Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Center accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a joint venture among 38 school districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, the District does not have an equity interest in NOECA as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. During fiscal year 2012, the District paid \$18,657 for services to NOECA. Financial information can be obtained from Betty J. Schwiefert, Treasurer for the North Point Educational Service Center, who serves as fiscal agent, at 2900 S. Columbus Avenue, Sandusky, Ohio 44870-5569.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials

The District participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program. See Note 10.B. for more information on this group rating plan.

The San-Ott Insurance Consortium (the "Consortium")

The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Consortium is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jeffrey Dornbusch, Treasurer, 431 Portage Drive, Port Clinton, Ohio 43452.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Ohio School Plan

The District participates in the Ohio School Plan (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. serves as the sales and marketing representative which established agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency Inc., 246 East Sycamore Street, Columbus, Ohio 43205.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

D. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except Agency funds). The specific timetable for fiscal year 2012 is as follows:

1. 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 expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures 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 a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2012.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of disbursements, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of disbursements, the District has elected to present the general fund budgetary statement comparison at the fund and function level. Although State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of disbursements may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2012; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

8. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. The Board of Education has, by resolution, specified investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$15,156, which includes \$748 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

I. Unpaid Vacation and Sick Leave

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.

J. Long-Term Obligations

Long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

L. Fund Balance

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

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

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

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

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

M. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The amount restricted for other purposes includes amounts restricted for food service.

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

N. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund activity between governmental funds are eliminated on the statement of assets - cash basis and the statement of activities - cash basis.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**DANBURY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

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

A. Cash on Hand

At fiscal year end, the District had \$1,670 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$3,115,876. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, \$1,023,067 of the District’s bank balance of \$3,315,523 was covered by the FDIC and \$2,292,456 was exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>6 months or less</u>
STAR Ohio	<u>\$ 160,791</u>	<u>\$ 160,791</u>

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State Statute.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of Total</u>
STAR Ohio	\$ 160,791	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and cash equivalents as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,115,876
Investments	160,791
Cash on hand	<u>1,670</u>
Total	<u>\$ 3,278,337</u>
<u>Cash and cash equivalents per statement of net assets</u>	
Governmental activities	\$ 3,201,694
Private-purpose trust	39,057
Agency fund	<u>37,586</u>
Total	<u>\$ 3,278,337</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 30,000</u>

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers made in fiscal year 2012 were in accordance with Ohio Revised Code Sections 5705.14, 5705.14 and 5705.16.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 402,348,180	98.40	\$ 406,719,570	98.35
Public utility personal	<u>6,545,590</u>	<u>1.60</u>	<u>6,810,020</u>	<u>1.65</u>
Total	<u>\$ 408,893,770</u>	<u>100.00</u>	<u>\$ 413,529,590</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$47.35		\$43.40

NOTE 7 - LEASE-PURCHASE AGREEMENT

On March 31, 2010, the District entered into a lease-purchase agreement with The First National Bank of Bellevue for the purchase of land and the construction, enlarging or otherwise improving, furnishing and equipping and the lease and eventual acquisition of the project facilities on the leased property. The District made \$350,000 in principal payments and interest payments of \$39,803 from the general fund during fiscal year 2012.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - LEASE-PURCHASE AGREEMENT - (Continued)

The following is a revised schedule of the future long-term minimum lease payments required under the lease purchase agreements and the present value of the future minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 80,505
2014	77,076
2015	74,684
2016	77,183
2017	74,573
2018 - 2022	<u>334,908</u>
Total minimum lease payments	718,929
Less: amount representing interest	<u>(128,929)</u>
Total	<u>\$ 590,000</u>

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Energy conservation improvement bonds	\$ 940,931	\$ -	\$ (60,000)	\$ 880,931	\$ 60,000
Lease-purchase agreement	<u>940,000</u>	<u>-</u>	<u>(350,000)</u>	<u>590,000</u>	<u>55,000</u>
Total long-term obligations, governmental activities	<u>\$ 1,880,931</u>	<u>\$ -</u>	<u>\$ (410,000)</u>	<u>\$ 1,470,931</u>	<u>\$ 115,000</u>

Lease-Purchase Agreement - The lease-purchase agreement will be paid from the general fund. See Note 7 for detail.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Improvement Bonds - On February 10, 2010, the District issued Energy Conservation Improvement Bonds (Qualified School Construction Bonds), Series 2010 to provide long-term financing of installations, modifications and remodeling of school buildings to conserve energy. The \$1,005,931 issuance is made up of current interest bonds and bear interest at a rate of 1.65 percent annually.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final stated maturity of the current interest bonds is December 1, 2024.

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

Fiscal Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,000	\$ 14,041	\$ 74,041
2014	60,000	13,051	73,051
2015	65,000	12,019	77,019
2016	65,000	10,947	75,947
2017	65,000	9,874	74,874
2018 - 2022	345,000	32,623	377,623
2023 - 2025	<u>220,931</u>	<u>5,565</u>	<u>226,496</u>
Total	<u>\$ 880,931</u>	<u>\$ 98,120</u>	<u>\$ 979,051</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$37,217,663 and an unvoted debt margin of \$413,530.

NOTE 9 - 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 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.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - COMPENSATED ABSENCES - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated without limit for all personnel. Upon retirement, payment is made for one-fourth of the accrued, but unused, sick leave balance to a maximum of 58 days for all employees.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 100% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Insurer</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:	Ohio School Plan		
Each occurrence		\$ 3,000,000	\$ 0
Aggregate		5,000,000	0
Errors and Omissions			
Each occurrence	Ohio School Plan	3,000,000	2,500
Aggregate		5,000,000	
Employee Practices	Ohio School Plan		
Each occurrence		3,000,000	2,500
Aggregate		5,000,000	
Property	Ohio School Plan	30,468,626	5,000
Fleet: Nationwide/ Comprehensive	Ohio School Plan	2,000,000	1,000 buses / 250 other
Collision		2,000,000	1,000 buses / 250 other

Settled claims have not exceeded this coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

B. OASBO Group Workers' Compensation Rating Plan

For fiscal year 2012, the District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - RISK MANAGEMENT - (Continued)

A participant will then either receive money from or be required to contribute to the “equity pooling fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan’s selection criteria. Comp Management provides administrative, cost control and actuarial services to the Plan.

C. Group Health Insurance

The District has joined together with other school districts in the area to form the San-Ott School Employees Welfare Benefit Association (the “Association”), whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$200,000 and aggregate claims in excess of 120% of expected claims.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 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 District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$179,764, \$165,175 and \$170,051, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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

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

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$566,377, \$574,376 and \$509,795, respectively; 83.59 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$11,487 made by the District and \$8,205 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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, 0.55 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 Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$28,037, \$20,000 and \$30,978, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$10,616, \$10,629 and \$10,113, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**DANBURY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$43,567, \$44,185 and \$39,215, respectively; 83.59 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 52,012
Funds budgeted elsewhere **	897
Adjustment for encumbrances	239,542
Cash basis	\$ 292,451

** Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund and the recreation fund.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - CONTINGENCIES

A. Grants and ADM

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 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 District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 15 - SET-ASIDES

The District is required by State law to set-aside certain general fund receipt amounts, as defined by statute, into various set-asides. These set-asides are calculated and presented on a cash basis. During the fiscal year ended June 30, 2012, the set-aside activity was as follows:

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	93,765
Current year qualifying disbursements	(245,254)
Excess qualified disbursements from prior years	<u>-</u>
Total	<u>\$ (151,489)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

The District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero. The qualifying disbursements exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 244,162
Other nonmajor governmental	<u>22,588</u>
Total	<u>\$ 266,750</u>

NOTE 17 - SUBSEQUENT EVENT

On August 29, 2012, the District paid off the outstanding balance of the lease-purchase agreement.



Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Danbury Local School District
9451 E. Harbor Road
Lakeside-Marblehead, OH 43440

To the Board of Education:

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Danbury Local School District, Ottawa County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise Danbury Local School District's basic financial statements and have issued our report thereon dated October 12, 2012, which emphasized the Danbury Local School District follows the cash basis of accounting, which is an other comprehensive basis of accounting not in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Danbury Local School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Danbury Local School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Danbury Local 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Danbury Local School District's financial statements will not be prevented, or detected and timely corrected.

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

Board of Education
Danbury Local School District

Compliance and Other Matters

As part of reasonably assuring whether the Danbury Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2012-DLSD-001.

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

We intend this report solely for the information and use of the management and Board of Education of the Danbury Local School District and others within the Danbury Local School District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
October 12, 2012

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-DLSD-001

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

Ohio Admin. Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time.

Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Client Response: The District is aware of the requirements to file financial statements in accordance with GAAP; however, after performing a cost-benefit analysis, the District has elected to prepare its financial statements utilizing the cash basis of accounting.

**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2011-DLSD-001	<u>Noncompliance:</u> Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the District to prepare its annual financial report in accordance with GAAP, however, the District prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as 2012-DLSD-001



Dave Yost • Auditor of State

DANBURY LOCAL SCHOOL DISTRICT

OTTAWA 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