



Dave Yost · Auditor of State

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Shawnee Local School District
Allen County
3255 Zurmehly Road
Lima, Ohio 45806

To the Board of Education:

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

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

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

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

As described in Note 3, the School District restated the opening budgetary balance of the General Fund.

Shawnee Local School District
Allen County
Independent Accountants' Report
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Dave Yost
Auditor of State

February 6, 2013

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets decreased \$111,312, mostly due to a reduction in general receipts; in particular, investment earnings declined due to interest rates reflecting the struggling economic environment. Program receipts experienced a decrease that was nearly completely offset by reductions in program disbursements.
- Outstanding debt decreased from \$1,823,314 to \$1,292,709 through principal payments made during the current year.

Using this Annual Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2012, the General Fund is the School District's most significant fund.

Basis of Accounting

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

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a Statement of Net Assets will be cash and investments. The Statement of Activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and investments. 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.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, governmental activities include the School District's programs and services, including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

Governmental Funds – All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs. The School District's fiduciary funds account for scholarships, endowments, staff and student activities.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

The School District as a Whole

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

**(Table 1)
Net Assets – Cash Basis**

| | Governmental Activities | |
|---------------------------------------|--------------------------------|---------------------|
| | 2012 | 2011 |
| Assets: | | |
| Equity in Pooled Cash and Investments | \$19,744,941 | \$19,856,253 |
| Total Assets | <u>19,744,941</u> | <u>19,856,253</u> |
| Net Assets: | | |
| Restricted for: | | |
| Capital Outlay | 1,097,360 | 895,271 |
| Set Asides | 336,711 | |
| Budget Stabilization | 490,091 | |
| Other Purposes | 646,060 | 673,209 |
| Unrestricted | <u>18,001,521</u> | <u>17,460,971</u> |
| Total Net Assets | <u>\$19,744,941</u> | <u>\$19,856,253</u> |

Net assets of the governmental activities decreased \$111,312, which represents a .56 percent decrease from fiscal year 2011.

A portion of the School District's net assets, \$1,743,420 or 9 percent, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$18,001,521 may be used to meet the School District's ongoing obligations.

Effective July 1, 2011 the State statute requiring the School District to set aside amounts for the purchase of textbooks and other instructional materials was repealed. Restrictions placed on money identified to be used for textbook purchases within the general fund have been eliminated.

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

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

| | Governmental Activities | |
|--|--------------------------------|------------------|
| | 2012 | 2011 |
| Receipts: | | |
| Program Receipts: | | |
| Charges for Services and Sales | \$ 2,476,960 | \$ 2,362,333 |
| Operating Grants, Contributions and Interest | 1,630,803 | 2,004,267 |
| Capital Grants, Contributions and Interest | 13,895 | 415,207 |
| Total Program Receipts | <u>4,121,658</u> | <u>4,781,807</u> |

(Continued)

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

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

| | Governmental Activities | |
|---|--------------------------------|---------------------|
| | 2012 | 2011 |
| General Receipts: | | |
| Property Taxes | 11,821,094 | 11,637,760 |
| Grants and Entitlements not Restricted to Specific Programs | 8,368,519 | 8,701,382 |
| Proceeds from Sale of Capital Assets | 14,731 | 5,357 |
| Investment Earnings | 221,909 | 360,946 |
| Miscellaneous | 144,101 | 90,347 |
| Total General Receipts | <u>20,570,354</u> | <u>20,795,792</u> |
| Total Receipts | <u>24,692,012</u> | <u>25,577,599</u> |
| Program Disbursements: | | |
| Instruction: | | |
| Regular | 9,730,126 | 10,149,283 |
| Special | 2,316,446 | 2,105,807 |
| Student Intervention Services | 169,897 | 187,496 |
| Other | 1,134,498 | 1,228,923 |
| Support Services: | | |
| Pupils | 1,331,417 | 1,336,585 |
| Instructional Staff | 917,964 | 931,489 |
| Board of Education | 48,260 | 54,093 |
| Administration | 1,794,778 | 1,758,763 |
| Fiscal | 563,009 | 535,655 |
| Operation and Maintenance of Plant | 2,899,155 | 3,250,470 |
| Pupil Transportation | 1,252,286 | 1,270,013 |
| Central | 67,483 | 61,823 |
| Operation of Non-Instructional Services: | | |
| Food Service Operations | 978,435 | 946,655 |
| Other | 232,097 | 213,141 |
| Extracurricular Activities | 772,446 | 831,332 |
| Capital Outlay | | 5,087 |
| Debt Service: | | |
| Principal Retirement | 530,605 | 528,403 |
| Interest and Fiscal Charges | 64,422 | 83,040 |
| Total Program Disbursements | <u>24,803,324</u> | <u>25,478,058</u> |
| Change in Net Assets | (111,312) | 99,541 |
| Net Assets Beginning of Year | <u>19,856,253</u> | <u>19,756,712</u> |
| Net Assets End of Year | <u>\$19,744,941</u> | <u>\$19,856,253</u> |

Total receipts decreased from 2011 by \$885,587 due to property tax reimbursement reductions coupled with declining new construction, the expiration of Federal stimulus and State education stabilization funds, and lower interest earnings on investments.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

Governmental Activities

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

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

| | Total Costs of Services | | Net Costs of Services | |
|---|--------------------------------|---------------------|------------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Program Disbursements: | | | | |
| Instruction: | | | | |
| Regular | \$ 9,730,126 | \$10,149,283 | (\$ 8,171,621) | (\$8,824,730) |
| Special | 2,316,446 | 2,105,807 | (1,569,653) | (1,175,355) |
| Student Intervention Services | 169,897 | 187,496 | (169,897) | (187,496) |
| Other | 1,134,498 | 1,228,923 | (1,134,498) | (1,224,373) |
| Support Services: | | | | |
| Pupils | 1,331,417 | 1,336,585 | (1,331,417) | (1,269,682) |
| Instructional Staff | 917,964 | 931,489 | (837,014) | (837,626) |
| Board of Education | 48,260 | 54,093 | (48,260) | (41,450) |
| Administration | 1,794,778 | 1,758,763 | (1,690,058) | (1,530,688) |
| Fiscal | 563,009 | 535,655 | (552,444) | (526,809) |
| Operation and Maintenance of Plant | 2,899,155 | 3,250,470 | (2,878,060) | (2,826,163) |
| Pupil Transportation | 1,252,286 | 1,270,013 | (1,252,286) | (1,270,013) |
| Central | 67,483 | 61,823 | (67,483) | (56,823) |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 978,435 | 946,655 | 31,449 | 11,674 |
| Other | 232,097 | 213,141 | 932 | 112,894 |
| Extracurricular Activities | 772,446 | 831,332 | (416,329) | (443,081) |
| Capital Outlay | | 5,087 | | (5,087) |
| Debt Service: | | | | |
| Principal Retirement | 530,605 | 528,403 | (530,605) | (528,403) |
| Interest and Fiscal Charges | 64,422 | 83,040 | (64,422) | (83,040) |
| Total | \$24,803,324 | \$25,478,058 | (\$20,681,666) | (\$20,696,251) |

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

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$19,744,941, which is lower than the prior year balance of \$19,856,253.

The General Fund had total cash receipts and other financing sources of \$20,950,243. The cash disbursements and other financing uses of the general fund totaled \$21,337,220. The general fund's fund balance decreased \$386,977 in fiscal year 2012. The decrease in fund balance can be attributed to a combination of decreased investment interest rates, the expiration of stimulus grants, decreased tax reimbursements, and increased administration expenditures, all of which were only partially offset by increased tuition and fees.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the School District amended its General Fund budget several times. For the General Fund, final budget basis receipts and other financing sources were \$20,792,619, representing an increase of \$475,772 from the original estimate of \$20,316,847. Actual receipts and other financing sources of \$20,792,616 were \$3 lower than the final budget.

For fiscal year 2012, the General Fund final budget basis disbursements and other financing uses were \$22,140,000, which is over the original budgeted disbursements and other financing uses of \$21,768,962 by \$371,038. Actual disbursements and other financing uses of \$21,314,840 were \$825,160 lower than the final budget. Actual instruction, support services, operation and maintenance of plant, pupil transportation and administration disbursements were significantly under budgeted expectations. This was mainly due to disbursements having been fully appropriated while actual expenditures reflect the Board of Education and Administration's efforts in cost reduction by, among other actions, not filling vacant staff positions and the employees having forgone raises in the current year.

Debt Administration

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

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

| | Governmental Activities | |
|-----------------------------------|--------------------------------|--------------------|
| | 2012 | 2011 |
| Series 2008 Tax Anticipation Note | \$ 720,000 | \$1,200,000 |
| HB264 Energy Conservation Loan | 572,709 | 623,314 |
| Total | <u>\$1,292,709</u> | <u>\$1,823,314</u> |

For further information regarding the School District's debt, refer to Note 6 of the basic financial statements.

Current Issues

The School district experienced deficit spending in its general fund of \$347,252 for fiscal year 2012 because disbursements exceeded revenues during the fiscal year. This deficit amount excludes the activity rolled into the general fund for financial reporting purposes. Despite efforts to control costs, Shawnee schools are experiencing a reduction in revenue due to property tax reimbursement reductions, slower growth in construction and reduced levels of funding associated with the elimination of Federal Stimulus and State Education stabilization funds. Revenue for the General Fund, Education Jobs fund, and the State Fiscal Stabilization Fund, which are all used to fund the operating costs of the District, decreased \$647,609 from fiscal year 2011.

The current economic conditions have led to a historically low interest rate environment. These lower rates caused a decline in net investment income of \$139,037 from fiscal year 2011 levels for the General Fund. Rates have continued to decline which will place more pressure on the District's ability to generate future returns.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

Expenses for the School District's operating expenses covered by the General Fund, Education Jobs fund and the State Fiscal Stabilization fund, declined from prior year levels by \$307,826. The School District's Administration and the Board of Education achieved this result through reduced staff levels by not filling vacant positions unless a demonstrated need existed. As in all School Districts, and vast majority of private enterprises, headcount related costs account for the highest percentage of expenditures. Shawnee schools spent approximately 78% of its annual budget on salaries, wages & benefits in fiscal year 2012. This represents a reduction of \$548,443 from prior year levels. The Shawnee Education Association and Shawnee Classified Employees Association, who represent the employees of the School District each agreed to forego raises this past fiscal year, and through the term of the current agreement expiring August, 2014. Despite this agreement, employee benefit costs and other operating costs are expected to increase at rates faster than general inflation. Offsetting these savings was an increase in other contracted costs, fuel for buses, utilities and supplies of more than \$211,000.

The outlook for decreased revenues and increasing costs will lead to larger deficits in future periods unless additional sources of revenue or severe reductions in costs are initiated. The economic slowdown has curtailed the growth in building and construction which leads to less growth in tax collections as the School District is near the 20 mil floor for school funding. In addition to the continuing millage from voted levies, Shawnee Schools also receive revenues from 2 emergency levies. These consist of a 10 year fixed amount levy for \$2,880,000 per year renewed in 2011, and a 5 year fixed amount levy for \$2,150,000 per year, eligible for renewal in November 2013. All efforts are being made to operate the School District with current levels of funding due to the difficult economic environment our citizens are facing. The goal of the Board of Education is to delay any request for additional funds for several years.

The School District continues to be a member in the Allen County Health Benefit Plan. Membership consists of all local School Districts, the Apollo Career Center and the Allen County Educational Service Center. Its goal is to manage costs by providing quality care at a fair price to member districts. Experience to date has realized savings for district members due to lower than average increases in yearly health care cost premiums.

All of the School District's buildings are more than 40 years old and their maintenance is a major concern to the Board of Education. It is critical that facilities are secure, safe, structurally and operationally sound; therefore a permanent improvement levy has been approved by the School District voters since the early 1970's. This levy, along with its related reimbursements, generates approximately \$1.2 million dollars annually for the School District to be used exclusively for buildings, grounds, textbooks and buses. As the Board understands that the construction of new facilities is unlikely in the near future, it is critical that funds are available to support our ongoing maintenance efforts.

It is estimated that changes in the budget at the state level will reduce the revenue from this levy from the current \$1.2 million to approximately \$1.0 million in coming fiscal years. The School District will request that voters renew this permanent improvement levy in November, 2012.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mike Verlingo, Treasurer of Shawnee Local School District, 3255 Zurmehly Rd., Lima, Ohio 45806.

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**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012**

| | Governmental Activities |
|---------------------------------------|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$19,744,941 |
| Total Assets | <u><u>19,744,941</u></u> |
| Net Assets: | |
| Restricted for: | |
| Capital Outlay | 1,097,360 |
| Other Purposes | 646,060 |
| Unrestricted | <u>18,001,521</u> |
| Total Net Assets | <u><u>\$19,744,941</u></u> |

See accompanying notes to the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

| | Program Cash Receipts | | | Net (Disbursements) Receipts and Changes in Net Assets | |
|---|-----------------------|--------------------------------------|---|--|----------------------------|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants, Contributions, and Interest | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$9,730,126 | \$1,502,050 | \$56,455 | | (\$8,171,621) |
| Special | 2,316,446 | 26,648 | 720,145 | | (1,569,653) |
| Student Intervention Services | 169,897 | | | | (169,897) |
| Other | 1,134,498 | | | | (1,134,498) |
| Support Services: | | | | | |
| Pupils | 1,331,417 | | | | (1,331,417) |
| Instructional Staff | 917,964 | | 80,950 | | (837,014) |
| Board of Education | 48,260 | | | | (48,260) |
| Administration | 1,794,778 | | 104,720 | | (1,690,058) |
| Fiscal | 563,009 | 10,565 | | | (552,444) |
| Operation and Maintenance of Plant | 2,899,155 | | 7,200 | \$13,895 | (2,878,060) |
| Pupil Transportation | 1,252,286 | | | | (1,252,286) |
| Central | 67,483 | | | | (67,483) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 978,435 | 615,210 | 394,674 | | 31,449 |
| Other | 232,097 | | 233,029 | | 932 |
| Extracurricular Activities | 772,446 | 322,487 | 33,630 | | (416,329) |
| Debt Service: | | | | | |
| Principal Retirement | 530,605 | | | | (530,605) |
| Interest and Fiscal Charges | 64,422 | | | | (64,422) |
| Totals | \$24,803,324 | \$2,476,960 | \$1,630,803 | \$13,895 | (20,681,666) |
| General Receipts: | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 10,940,808 |
| Capital Outlay | | | | | 880,286 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 8,368,519 |
| Proceeds from Sale of Capital Assets | | | | | 14,731 |
| Investment Earnings | | | | | 221,909 |
| Miscellaneous | | | | | 144,101 |
| Total General Receipts | | | | | 20,570,354 |
| Change in Net Assets | | | | | (111,312) |
| Net Assets Beginning of Year | | | | | 19,856,253 |
| Net Assets End of Year | | | | | \$19,744,941 |

See accompanying notes to the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|---|---|
| Assets: | | | |
| Equity in Pooled Cash and Investments | \$18,006,788 | \$1,738,153 | \$19,744,941 |
| Total Assets | <u>18,006,788</u> | <u>1,738,153</u> | <u>19,744,941</u> |
| Fund Balances: | | | |
| Non-spendable | 5,267 | | 5,267 |
| Restricted | | 1,738,153 | 1,738,153 |
| Committed | 300,000 | | 300,000 |
| Assigned | 231,533 | | 231,533 |
| Unassigned | <u>17,469,988</u> | | <u>17,469,988</u> |
| Total Fund Balances | <u>\$18,006,788</u> | <u>\$1,738,153</u> | <u>\$19,744,941</u> |

See accompanying notes to the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Receipts: | | | |
| Property and Other Local Taxes | \$10,940,808 | \$880,286 | \$11,821,094 |
| Intergovernmental | 8,031,080 | 1,934,211 | 9,965,291 |
| Investment Income | 221,909 | 1,330 | 223,239 |
| Tuition and Fees | 1,518,878 | | 1,518,878 |
| Extracurricular Activities | 45,919 | 277,902 | 323,821 |
| Gifts and Donations | 20,306 | 31,311 | 51,617 |
| Charges for Services | 9,819 | 613,851 | 623,670 |
| Rent | 10,565 | 25 | 10,590 |
| Miscellaneous | 138,412 | 669 | 139,081 |
| Total Receipts | <u>20,937,696</u> | <u>3,739,585</u> | <u>24,677,281</u> |
| Disbursements: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 9,523,841 | 206,285 | 9,730,126 |
| Special | 1,669,918 | 646,528 | 2,316,446 |
| Student Intervention Services | 169,897 | | 169,897 |
| Other | 1,134,498 | | 1,134,498 |
| Support Services: | | | |
| Pupils | 1,287,147 | 44,270 | 1,331,417 |
| Instructional Staff | 699,666 | 218,298 | 917,964 |
| Board of Education | 48,260 | | 48,260 |
| Administration | 1,657,197 | 137,581 | 1,794,778 |
| Fiscal | 542,465 | 20,544 | 563,009 |
| Operation and Maintenance of Plant | 2,666,523 | 232,632 | 2,899,155 |
| Pupil Transportation | 1,237,800 | 14,486 | 1,252,286 |
| Central | 67,401 | 82 | 67,483 |
| Extracurricular Activities | 502,834 | 269,612 | 772,446 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | | 978,435 | 978,435 |
| Other | | 232,097 | 232,097 |
| Debt Service: | | | |
| Principal Retirement | | 530,605 | 530,605 |
| Interest and Fiscal Charges | | 64,422 | 64,422 |
| Total Disbursements | <u>21,207,447</u> | <u>3,595,877</u> | <u>24,803,324</u> |
| Excess of Receipts Over (Under) Disbursements | <u>(269,751)</u> | <u>143,708</u> | <u>(126,043)</u> |
| Other Financing Sources (Uses): | | | |
| Proceeds from Sale of Capital Assets | 12,547 | 2,184 | 14,731 |
| Advances In | | 38,282 | 38,282 |
| Advances Out | (38,282) | | (38,282) |
| Transfers In | | 608,427 | 608,427 |
| Transfers Out | (91,491) | (516,936) | (608,427) |
| Total Other Financing Sources (Uses) | <u>(117,226)</u> | <u>131,957</u> | <u>14,731</u> |
| Net Change in Fund Balances | (386,977) | 275,665 | (111,312) |
| Fund Balances Beginning of Year | <u>18,393,765</u> | <u>1,462,488</u> | <u>19,856,253</u> |
| Fund Balances End of Year | <u>\$18,006,788</u> | <u>\$1,738,153</u> | <u>\$19,744,941</u> |

See accompanying notes to the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

| | Budgeted Amounts | | | Variance with Final Budget |
|--|-------------------------|---------------------|---------------------|---------------------------------------|
| | Original | Final | Actual | |
| Receipts: | | | | |
| Property and Other Local Taxes | \$10,807,850 | \$10,940,811 | \$10,940,808 | (\$3) |
| Intergovernmental | 7,761,550 | 8,031,080 | 8,031,080 | |
| Investment Income | 274,447 | 221,909 | 221,909 | |
| Tuition and Fees | 1,317,000 | 1,421,788 | 1,421,788 | |
| Gifts and Donations | | 5,688 | 5,688 | |
| Charges for Services | 9,000 | 9,819 | 9,819 | |
| Rent | 14,000 | 10,565 | 10,565 | |
| Miscellaneous | 5,500 | 3,601 | 3,601 | |
| Total Receipts | <u>20,189,347</u> | <u>20,645,261</u> | <u>20,645,258</u> | <u>(3)</u> |
| Disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,553,268 | 9,807,012 | 9,441,505 | 365,507 |
| Special | 1,622,842 | 1,739,683 | 1,674,845 | 64,838 |
| Student Intervention Services | | 177,253 | 170,647 | 6,606 |
| Other | 1,393,260 | 1,179,091 | 1,135,146 | 43,945 |
| Support Services: | | | | |
| Pupils | 1,333,111 | 1,343,319 | 1,293,253 | 50,066 |
| Instructional Staff | 802,583 | 733,486 | 706,149 | 27,337 |
| Board of Education | 59,522 | 50,128 | 48,260 | 1,868 |
| Administration | 1,655,493 | 1,731,834 | 1,667,288 | 64,546 |
| Fiscal | 539,360 | 583,954 | 562,190 | 21,764 |
| Operation and Maintenance of Plant | 2,827,135 | 2,831,537 | 2,726,005 | 105,532 |
| Pupil Transportation | 1,291,140 | 1,297,120 | 1,248,776 | 48,344 |
| Central | 67,625 | 70,789 | 68,151 | 2,638 |
| Extracurricular Activities | 502,132 | 459,997 | 442,852 | 17,145 |
| Total Disbursements | <u>21,647,471</u> | <u>22,005,203</u> | <u>21,185,067</u> | <u>820,136</u> |
| Excess of Receipts Over (Under) Disbursements | <u>(1,458,124)</u> | <u>(1,359,942)</u> | <u>(539,809)</u> | <u>820,133</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 2,500 | 12,547 | 12,547 | |
| Refund of Prior Year Disbursements | 125,000 | 134,811 | 134,811 | |
| Advances Out | | (39,764) | (38,282) | 1,482 |
| Transfers Out | (121,491) | (95,033) | (91,491) | 3,542 |
| Total Other Financing Sources (Uses) | <u>6,009</u> | <u>12,561</u> | <u>17,585</u> | <u>5,024</u> |
| Net Change in Fund Balance | (1,452,115) | (1,347,381) | (522,224) | 825,157 |
| Fund Balance Beginning of Year - Restated (Note 3) | 17,803,594 | 17,803,594 | 17,803,594 | |
| Prior Year Encumbrances Appropriated | <u>147,300</u> | <u>147,300</u> | <u>147,300</u> | |
| Fund Balance End of Year | <u>\$16,498,779</u> | <u>\$16,603,513</u> | <u>\$17,428,670</u> | <u>\$825,157</u> |

See accompanying notes to the basic financial statements.

SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

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 Investments | \$1,333,277 | \$30,330 |
| Total Assets | <u>1,333,277</u> | <u>30,330</u> |
| Net Assets: | | |
| Endowments | 1,176,147 | |
| Held in Trust for Scholarships | 157,121 | |
| Held for Student Activities | | 30,330 |
| Held for Staff Awards | 9 | |
| Total Net Assets | <u>\$1,333,277</u> | <u>\$30,330</u> |

See accompanying notes to the basic financial statements.

SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

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

| | <u>Private Purpose Trust</u> |
|--|----------------------------------|
| | <u>Scholarship</u> |
| Additions: | |
| Gifts and Contributions | \$3,305 |
| Interest | 17,968 |
| Total Additions | <u>21,273</u> |
| Deductions: | |
| Payments in Accordance with Trust Agreements | 62,408 |
| Total Deductions | <u>62,408</u> |
| Change in Net Assets | (41,135) |
| Net Assets Beginning of Year | <u>1,374,412</u> |
| Net Assets End of Year | <u>\$1,333,277</u> |

See accompanying notes to the basic financial statements.

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**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Shawnee Local School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The School District is located in Allen County, and includes the Village of Fort Shawnee and portions of Shawnee and American Townships.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Shawnee Local School District.

The following activities are included within the reporting entity:

Parochial Schools – Within the School District boundaries, Lima Central Catholic High School and St. Charles Elementary School are operated through the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activities of these State monies by the School District are reflected in a special revenue fund for financial reporting purposes.

The School District is associated with two jointly governed organizations and an insurance pool. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Apollo Career Center and the Allen County Schools Health Benefit Plan. Information about these organizations is presented in Notes 12 and 13 of the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the School District's accounting policies.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

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

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

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

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The *Statement of Net Assets* and *Statement of Activities* display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The *Statement of Net Assets* presents the financial condition of the governmental activities of the School District at year-end. The *Statement of Activities* presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities.

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

2. Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

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

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

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

General Fund – The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

4. Fiduciary Fund Types

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

1. Estimated Resources

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

2. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the object level for the General Fund and fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the General Fund must be approved by the Board of Education.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

3. Encumbrances

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Lapsing of Appropriations

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

D. Cash and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "equity in pooled cash and investments."

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments". Investments with an original maturity of more than three months that are not made from the pool are reported as "investments". During fiscal year 2012 investments were limited to Certificates of Deposit, repurchase agreements, money market and U. S. Government and Agencies Securities.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2012 were \$221,909, which includes \$19,535 assigned from other School District funds.

E. Capital Assets

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

F. Accumulated 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 used by the School District.

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability on the cash basis financial statements. The debt proceeds are reported when cash is received and payment of principal and interest are reported as disbursements when paid.

H. Intergovernmental Receipts

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants are recorded as receipts when the grant is received.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Inventory and Prepaid Items

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

J. Interfund Receivables/Payables

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

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

These transactions are not recorded as liabilities or assets in the accompanying financial statements. Additional details about the School District's interfund transactions are contained in Note 15 of the basic financial statements.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

L. Equity Classifications

1. Government-Wide Statements

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

1. **Restricted net assets** - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for capital improvements, Federal and State grants restricted to disbursements for specific purposes and food services. As of June 30, 2012, the School District did not have any net assets restricted by enabling legislation.
2. **Unrestricted net assets** - All other net assets that do not meet the definition of "restricted."

2. Fund Financial Statements

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- a. **Non-spendable** - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.
- b. **Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. **Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. **Assigned** - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education. The Board of Education has by resolution authorized the treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.
- e. **Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

M. Receipts and Disbursements

1. Program Receipts

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Disbursements

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

3. RESTATEMENT OF FUND BALANCE

The fund balance on the *Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund* was restated for fiscal year ending June 30, 2011 due to an error in reporting. The balance has been restated as follows:

| | General Fund |
|--|---------------------|
| Fund Balance at June 30, 2011 | \$18,007,679 |
| Overstatement | (204,085) |
| Restated Fund Balance at June 30, 2011 | <u>\$17,803,594</u> |

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

A. Deposits

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the carrying amount of the School District's deposits was \$6,145,778 and the bank balance was \$6,557,897. Of the bank balance, \$3,752,355 was covered by federal depository insurance and \$2,805,542 was uninsured and collateralized by a 105% public depository pool, which was collateralized with securities held by the financial institution's trust department but not in the School District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

As of June 30, 2012, the School District had \$2,600 in un-deposited cash on hand which is included in the fund balance.

B. Investments

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

| | Cost as of 6/30/2012 | % of Total Investments | Maturities | |
|--|---------------------------------|-----------------------------------|--------------------|---------------------|
| | | | < 1 Year | 1-5 Years |
| Re-purchase Agreement | \$ 930,196 | 6.22% | \$ 930,196 | |
| Money Market | 1,554,974 | 10.39% | 1,554,974 | |
| Federal Home Loan Mortgage Corporation | 2,000,000 | 13.37% | | \$ 2,000,000 |
| Federal National Mortgage Association | 8,500,000 | 56.82% | | 8,500,000 |
| Federal Home Loan Bank | 1,975,000 | 13.20% | | 1,975,000 |
| Total Investments | <u>\$14,960,170</u> | <u>100.00%</u> | <u>\$2,485,170</u> | <u>\$12,475,000</u> |

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

D. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2 percent. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee." However, all of the School District's investments are either insured and registered in the name of the School District, or at least registered in the name of the School District.

E. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District's policy allows the Treasurer to invest in those investments authorized by the Ohio Revised Code, and places additional limitations with amounts authorized for investment in certain types.

The School District's investments in US Government/Agency Bonds include securities in Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Loan Bank that have credit ratings of AA+ and Aaa from Standard & Poor's and Moody's Investor Services, respectively. The School District's investments in the federal agency securities that underlie the School District's repurchase agreement were rated Aaa by Moody's Investor Services.

F. Concentration Risk

The School District places no limit on the amount the School District may invest in any one issuer; however, State statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. More than 5% of the School District's investments are in a Repurchase Agreement, a Money Market Account, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Loan Bank. The percentage of the School District's total investment that each investment represents, are listed in the table on the previous page.

5. PROPERTY TAXES

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

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

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

5. PROPERTY TAXES (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year.

The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Allen and Auglaize Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

| | 2011 Second-Half Collections | | 2012 First-Half Collections | |
|--|------------------------------|---------------|-----------------------------|---------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$327,102,110 | 79.9% | \$326,522,130 | 79.4% |
| Industrial/Commercial | 60,863,850 | 14.9% | 62,715,470 | 15.3% |
| Public Utility | 21,231,510 | 5.2% | 21,976,280 | 5.3% |
| Total Assessed Value | <u>\$409,197,470</u> | <u>100.0%</u> | <u>\$411,213,900</u> | <u>100.0%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | \$35.13 | | \$35.43 | |

6. DEBT OBLIGATIONS

Debt obligations of the School District at June 30, 2012 consisted of the following:

| | Interest Rate | Principal Outstanding | | Principal Outstanding | | Due Within One Year |
|-----------------------------------|---------------|-----------------------|------------|-----------------------|--------------------|---------------------|
| | | 6/30/2011 | Additions | 6/30/12 | Reductions | |
| Series 2008 Tax Anticipation Note | 3.42% | \$1,200,000 | | \$ 720,000 | \$480,000 | |
| HB264 Energy Conservation Loan | 4.50% | 623,314 | | 50,605 | 572,709 | 52,908 |
| | | <u>\$1,823,314</u> | <u>\$0</u> | <u>\$530,605</u> | <u>\$1,292,709</u> | <u>\$532,908</u> |

HB264 - In July, 2006 the School District received an \$845,157 un-voted general obligation loan from Honeywell Global Finance for the purpose of providing energy conservation measures for the School District under HB264. The loan was issued for a fifteen year period with final maturity July 1, 2021. Semi-annual payments of \$39,046, including interest of 4.5%, will be made throughout the term of the loan. The loan is being retired from the Debt Service Fund.

Tax Anticipation Note - In June 2008 the School District received \$2,400,000 for the purpose of acquiring, constructing, remodeling, repairing, and/or equipping school building facilities and sites and purchasing school buses at an interest rate of 3.42%. Semi-annual principal payments of \$240,000 will be made each March and September 1 throughout the term of the note. The note is being retired from the Debt Service Fund.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

6. DEBT OBLIGATIONS (Continued)

Principal and interest requirements for payment of debt obligations as of June 30, 2012 are as follows:

| Fiscal year Ending June 30, | HB264 | Tax Anticipation | Interest | Total |
|--|------------------|-----------------------------|------------------|--------------------|
| 2013 | \$ 52,908 | \$480,000 | \$ 45,703 | \$ 578,611 |
| 2014 | 55,315 | 240,000 | 26,880 | 322,195 |
| 2015 | 57,833 | | 20,259 | 78,092 |
| 2016 | 60,465 | | 17,627 | 78,092 |
| 2017 | 63,216 | | 14,875 | 78,091 |
| 2018-2022 | 282,972 | | 29,393 | 312,365 |
| Total | <u>\$572,709</u> | <u>\$720,000</u> | <u>\$154,737</u> | <u>\$1,447,446</u> |

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2012, the School District contracted with Ohio School Plan for property, liability and fleet insurance.

Professional liability and vehicles are also protected by Ohio School Plan. Settled claims have not exceeded the commercial coverage in any of the past five years, nor has insurance coverage been significantly reduced in the past three years.

B. Workers' Compensation

For fiscal year 2012, the School District's Worker's Compensation managed care organization is contracted with Compmanagement Health Systems.

Beginning with fiscal year 2012, the School District participates in the Bureau's EM 100 Cap Program, which limits premium increases to no more than 100% of the prior year Experience Modifier. The Experience Modifier is effectively the rate per dollar of payroll paid by the employer to the Worker's Compensation Bureau for coverage. Qualification for this program requires the adoption of a 10-step Safety Program by the School District, of which 5 steps must be completed prior to September 30, 2012.

C. Health Care Benefits

The School District participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental insurance coverage. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. Vision insurance is through Guardian.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

8. PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$431,180, \$409,439 and \$437,507, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System

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

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

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

8. PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits.

Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,304,010, \$1,352,213 and \$1,295,084, respectively; 82 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$62,882 made by the School District and \$44,916 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

9. POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**SHAWNEE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund.

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

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

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$75,973, \$104,131, and \$64,216, 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 current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$25,463, \$26,348, and \$26,018, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$100,308, \$104,016, and \$99,622, respectively; 82 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**SHAWNEE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**
(Continued)

10. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| | General | Other Governmental | Total Governmental |
|---------------------------|----------------|-------------------------------|-------------------------------|
| Non-spendable: | \$ 5,267 | | \$ 5,267 |
| Restricted for: | | | |
| Permanent Improvements | | \$1,097,360 | 1,097,360 |
| Food Service Operations | | 408,480 | 408,480 |
| Extracurricular | | 125,751 | 125,751 |
| Educational Activities | | 106,562 | 106,562 |
| Total Restricted | | 1,738,153 | 1,738,153 |
| Committed for: | | | |
| Future Severance Payments | 300,000 | | 300,000 |
| Total Committed | 300,000 | | 300,000 |
| Assigned for: | | | |
| Instruction | 117,584 | | 117,584 |
| Support Services | 113,613 | | 113,613 |
| Extracurricular | 336 | | 336 |
| Total Assigned | 231,533 | | 231,533 |
| Unassigned | 17,469,988 | | 17,469,988 |
| Total Fund Balance | \$18,006,788 | \$1,738,153 | \$19,744,941 |

11. STATUTORY RESERVE

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years.

The School District had offsets during the year that reduced the set aside amount below zero in the capital maintenance reserve. The carryover amount in the capital maintenance reserve is limited to the balance of the offsets attributed to bond or tax levy proceeds.

The following cash basis information identifies the changes in the fund balance reserve for capital improvements during fiscal year 2012.

| | <u>Capital Improvements</u> |
|---|--|
| Set-aside balance June 30, 2011 | \$434,184 |
| Current year set-aside requirement | (880,286) |
| Current year offsets | (\$446,102) |
| Total | \$ 0 |
| Balance carried forward to fiscal year 2013 | \$ 0 |
| Set-aside balance June 30, 2012 | \$ 0 |

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

12. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (the "NOACSC"), which is a computer consortium. NOACSC is an association of public School Districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member School Districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member School Districts within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eleven participating School Districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

13. INSURANCE PURCHASING POOL

Allen County Schools Health Benefit Plan – The School District participates in the Allen County Schools Health Benefit Plan (the "program"), a public entity shared risk pool consisting of the school districts within Allen County. The Program is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Directors which advises the Directors and Plan Manager, concerning aspects of the administration of the Program.

14. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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

15. INTERFUND ACTIVITY

At the end of the fiscal year the general fund advanced monies covering expenditures totaling \$38,282 to the Idea-B fund, \$19,178; Title I fund, \$16,076; and Title I-D fund, \$3,028. The advances will be repaid in July, 2012.

During fiscal year 2012 transfers were made by the General Fund to move unrestricted balances to the Debt Service fund for \$78,091 to meet debt service requirements and to the Food Service fund for \$13,400 to meet operational needs. Transfers were also made from the Permanent Improvement fund to the Debt Service fund for \$516,936 to meet debt service requirements.

16. BUDGETARY BASIS OF ACCOUNTING

The Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds, presented for the General Fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

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

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

| Net Change in Fund Balance | | General Fund |
|-----------------------------------|--|---------------------------|
| Cash Basis | | (\$386,977) |
| Funds Budgeted Elsewhere** | | 39,754 |
| Adjustment for Encumbrances | | (175,001) |
| Budget Basis | | <u><u>(\$522,224)</u></u> |

** As part of Governmental Accounting Standards Board Statement No. 54 "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a cash basis. This includes public school support funds, uniform school supplies funds, termination benefits funds, faculty and staff support funds, and unclaimed monies.

17. COMPLIANCE

- A. Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2012, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.
- B. The School District failed to bid a roofing project which violated Ohio Rev. Code Sections 3313.46(A) and 3313.46(B).

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**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| Federal Grantor/ Pass Through Grantor Program Title | Federal CFDA Number | Non-Cash Receipts | Non-Cash Expenditures | Non-Cash Expenditures |
|---|------------------------------------|------------------------------|----------------------------------|----------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| (Passed through the Ohio Department of Education) | | | | |
| Child Nutrition Cluster: | | | | |
| Non-Cash Assistance (Food Distribution) | | | | |
| National School Lunch Program | 10.555 | \$140,571 | | \$140,571 |
| Cash Assistance: | | | | |
| National School Lunch Program | 10.555 | \$350,948 | \$350,948 | |
| School Breakfast Program | 10.553 | 35,734 | 35,734 | |
| Total Child Nutrition Cluster | | <u>386,682</u> | <u>140,571</u> | <u>386,682</u> |
| Total U.S. Department of Agriculture | | <u>386,682</u> | <u>140,571</u> | <u>386,682</u> |
| | | | | <u>140,571</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| (Passed through the Ohio Department of Education) | | | | |
| Title I Cluster: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 391,473 | | 387,749 |
| ARRA Title I Grants to Local Educational Agencies - Recovery Act | 84.389 | <u>13,277</u> | <u>13,739</u> | |
| Total Title I Cluster | | <u>404,750</u> | | <u>401,488</u> |
| Special Education Cluster: | | | | |
| Special Education Grants to States | 84.027 | 483,296 | | 497,701 |
| ARRA Special Education Grants to States, Recovery Act | 84.391 | <u>9,694</u> | <u>16,717</u> | |
| Total Special Education Cluster | | <u>492,990</u> | | <u>514,418</u> |
| ARRA- Race to the Top Incentive Grants, Recovery Act | 84.395 | 1,750 | | |
| Education Technology State Grants | 84.318 | 1,953 | | 1,848 |
| Improving Teacher Quality State Grants | 84.367 | 54,705 | | 56,478 |
| Education Jobs Fund | 84.410 | <u>6,122</u> | <u>6,122</u> | |
| Total U.S. Department of Education | | <u>962,270</u> | | <u>980,354</u> |
| Total Federal Assistance | | <u>\$1,348,952</u> | <u>\$140,571</u> | <u>\$1,367,036</u> |
| | | | | <u>\$140,571</u> |

See Accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports Shawnee Local School District's (the School District's) federal award programs' receipts and expenditures. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Shawnee Local School District
Allen County
3255 Zurnehly Road
Lima, Ohio 45806

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shawnee Local School District, Allen County, (the School District) as of and for the fiscal year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 6, 2013 wherein we noted the School District uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted that the School District restated the opening budgetary fund balance for the General Fund. 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 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 School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

Shawnee Local School District
Allen County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-01 and 2012-02.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 6, 2013.

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

We intend this report solely for the information and use of management, Board of Education, federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 6, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Shawnee Local School District
Allen County
3255 Zurnehly Road
Lima, Ohio 45806

To the Board of Education:

Compliance

We have audited the compliance of Shawnee Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Shawnee Local School District's major federal programs for the fiscal year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with these requirements.

In our opinion, the Shawnee Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2012-03.

Shawnee Local School District
Allen County
Independent Accountants' Report on Compliance With Requirements
Applicable to Each Major Federal Program And On Internal Control Over
Compliance Required by OMB Circular A-133
Page 2

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-03 to be a material weakness.

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

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 6, 2013.

We intend this report solely for the information and use of the management, Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 6, 2013

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | Yes |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Child Nutrition Cluster: - CFDA #10.553 and #10.555 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

FINDING NUMBER 2012-01

Noncompliance Citation

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

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

The School District should prepare the financial statements according to generally accepted accounting principles to provide the users with more complete and meaningful financial statements.

OFFICIAL'S RESPONSE:

The Shawnee Board of Education has considered the issue of preparing GAAP Basis Financial Statements and has decided to forego their completion at this time. The Board will reconsider the issue for the 2013 Fiscal year.

FINDING NUMBER 2012-02

Noncompliance Citation

Ohio Rev. Code Section 3313.46(A) provides that when a Board of Education determines to build, repair, enlarge, improve or demolish any school building with a cost in excess of \$25,000, the Board is required to prepare plans and specifications, advertise for bids once a week for at least two consecutive weeks in a newspaper of general circulation in the district prior to the date specified by the Board for receiving bids, open the bids at the time and place specified by the Board in the advertisement for bids, and award the contract to the lowest responsible bidder.

Also, the contract should be between the Board and the bidders. The Board is required to approve and retain estimates and make them available to the Auditor of State upon request. The requirements of this Ohio Rev. Code Section do not apply when: 1) there is an "urgent necessity"; and 2) in certain circumstances of cooperative purchasing.

Additionally, pursuant to **Ohio Rev. Code Section 3313.46(B)**, the requirements of this Section do not apply to: acquisition of educational materials used for teaching; any item which the Board, by a two-thirds vote, determines is available and can be obtained only through a single source; upon declaration of the Board, by a two-thirds vote, to exclude energy conservation measures; or acquisition of computer software or hardware for instructional purposes.

The School District failed to competitively bid a roof replacement for the High School and Middle School buildings in the amount of \$103,000.

FINDING NUMBER 2012-02 (Continued)

The failure to follow required bid procedures increases the risk that the School District may not efficiently spend resources and may also result in legal action by contractors not given the opportunity to submit bids.

The School District's Board should review all purchases that meet or exceed the competitive bidding level to determine if they are exempt from competitive bidding. If the purchase is determined not to be exempt, then either the Board needs to declare the project an urgent necessity if it meets the criteria or they need to competitively bid the purchase. The School District minutes should document such actions.

OFFICIAL'S RESPONSE:

The Board and Administration understand the need to competitively bid projects in excess of the limits sets forth in ORC section 3313.46(A). Although a formal bid process was not utilized for this project, two firms were contacted (Frost Roofing & Cotterman & Company) for approximately 2/3 of the total project cost or \$65,000 of the \$103,000 project. The Frost bid was lower by \$4,510 and was selected.

The district is developing a bid process to be used in all cases, unless an exception exists, where the amount exceeds \$25,000 to ensure compliance with this statute going forward.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Noncompliance Citation – Material Weakness

| | |
|------------------------------------|-----------------------------------|
| Finding Number | 2012-03 |
| CFDA Title and Number | 10.553/10.555 – Nutrition Cluster |
| Federal Award Number / Year | 2012 |
| Federal Agency | U.S. Department of Agriculture |
| Pass-Through Agency | Ohio Department of Education |

OMB Circular A-133, Subpart C, Section 300(d), requires the School District to prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .310. **OMB Circular A-133, Subpart C, Section 310(b)(3)** states at a minimum the schedule shall provide total Federal awards expended for each individual Federal program. The School District prepared a schedule of federal awards receipts and expenditures but failed to include the value of commodities received and used during the fiscal year, in the amount of \$140,571.

The accompanying Schedule of Federal Awards Receipts and Expenditures had been adjusted to properly present the grant activity.

The failure to correctly report grant activity on the Schedule resulted in a material misstatement of the Schedule. A materially misstated Schedule may result in follow-up action being taken by the grantor agency.

The Treasurer should obtain the total commodities used and how they were allocated to the Nutrition Cluster programs from the cafeteria supervisor, to prepare an accurate federal schedule. The amount of these commodities should then be reported on the Schedule of Federal Receipts and Expenditures as non-cash assistance.

OFFICIAL'S RESPONSE:

The amount was omitted from the Federal Schedule. Procedures have been implemented to insure that future reports include this information the commodities amount.

**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE 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 <u>Longer Valid</u> ; <i>Explain:</i> |
|----------------|---|------------------|--|
| 2011-08 | Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B) – failure to file GAAP financial statements | No | Repeated as Finding 2012-01 |



Dave Yost • Auditor of State

SHAWNEE LOCAL SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED
MARCH 19, 2013