



Dave Yost • Auditor of State

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Vanlue Local School District
Hancock County
301 South East Street, P.O. Box 250
Vanlue, Ohio 45890-0250

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vanlue Local School District, Hancock County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vanlue Local School District, Hancock County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, on our consideration of the 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 District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

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

Dave Yost
Auditor of State

Columbus, Ohio

January 21, 2014

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Vanlue 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, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2012 are as follows:

In total, net assets increased \$502,838, or 19 percent. Receipts remained very similar to the prior fiscal year; however, there was a 3 percent decrease in disbursements which contributed to the increase in net assets.

General revenues were \$2,952,626, or 80 percent of total revenues, and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted State entitlements.

Using the Basic Financial Statements

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

The School District has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Vanlue Local School District, the General Fund and the Permanent Improvement capital projects fund are the most significant funds.

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2012, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may also include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, food service, and extracurricular activities disbursements.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund and the Permanent Improvement capital projects fund.

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

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

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2012 and fiscal year 2011:

Table 1
Net Assets

	Governmental Activities		
	2012	2011	Change
<u>Assets:</u>			
Assets	\$3,124,248	\$2,621,410	\$502,838
<u>Net Assets:</u>			
Restricted	183,566	300,002	(116,436)
Unrestricted	2,940,682	2,321,408	619,274
Total Net Assets	\$3,124,248	\$2,621,410	\$502,838

As mentioned previously, total net assets increased 19 percent from the prior fiscal year. While receipts were very similar to the prior fiscal year, disbursements decreased and receipts were in excess of disbursements leading to the increase in net assets.

Table 2 reflects the changes in net assets for fiscal year 2012 and fiscal year 2011.

Table 2
Changes in Net Assets

	Governmental Activities		
	2012	2011	Change
<u>Receipts:</u>			
Program Receipts			
Charges for Services	\$428,276	\$461,982	(\$33,706)
Operating Grants, Contributions, and Interest	305,348	158,333	147,015
Capital Grants and Contributions	0	13,489	(13,489)
Total Program Receipts	733,624	633,804	99,820
General Receipts			
Property Taxes Levied for General Purposes	917,061	894,427	22,634
Property Taxes Levied for Permanent Improvements	74,304	75,542	(1,238)
Income Taxes Levied for General Purposes	425,631	424,375	1,256
Grants and Entitlements	1,496,674	1,636,515	(139,841)
Interest	9,251	16,541	(7,290)
Gifts and Donations	2,290	795	1,495
Miscellaneous	27,415	36,045	(8,630)
Total General Receipts	2,952,626	3,084,240	(131,614)
Total Receipts	3,686,250	3,718,044	(31,794)

(continued)

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Changes in Net Assets
(continued)

	Governmental Activities		
	2012	2011	Change
<u>Disbursements:</u>			
Instruction:			
Regular	\$1,442,736	\$1,346,358	(\$96,378)
Special	307,289	461,146	153,857
Vocational	17,354	57,367	40,013
Support Services:			
Pupils	101,985	52,184	(49,801)
Instructional Staff	80,777	123,432	42,655
Board of Education	35,862	45,099	9,237
Administration	274,107	270,615	(3,492)
Fiscal	157,674	132,604	(25,070)
Operation and Maintenance of Plant	387,720	411,738	24,018
Pupil Transportation	112,047	121,064	9,017
Central	42,208	41,547	(661)
Food Service	89,071	93,782	4,711
Extracurricular Activities	134,582	135,736	1,154
Total Disbursements	<u>3,183,412</u>	<u>3,292,672</u>	<u>109,260</u>
Increase in Net Assets	502,838	425,372	77,466
Net Assets at Beginning of Year	<u>2,621,410</u>	<u>2,196,038</u>	<u>425,372</u>
Net Assets at End of Year	<u>\$3,124,248</u>	<u>\$2,621,410</u>	<u>\$502,838</u>

Program receipts account for almost 20 percent of total receipts and are primarily represented by program grants and charges for services such as for food service operations and extracurricular activities. Overall receipts changed less than 1 percent from the prior fiscal year.

Total disbursements decreased 3 percent from the prior fiscal year. The major program disbursements are for instruction, which accounts for nearly 56 percent of all disbursements. Other programs which support the instruction process including pupils, instructional staff, and pupil transportation account for 9 percent of disbursements. Maintenance of the School District's facilities also represents a significant disbursement of 12 percent of total disbursements.

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction:				
Regular	\$1,442,736	\$1,346,358	\$1,034,128	\$1,100,945
Special	307,289	461,146	146,375	282,291
Vocational	17,354	57,367	(1,288)	38,725
Support Services:				
Pupils	101,985	52,184	98,385	47,184
Instructional Staff	80,777	123,432	80,777	93,770
Board of Education	35,862	45,099	35,862	45,099
Administration	274,107	270,615	274,107	270,615
Fiscal	157,674	132,604	157,674	132,604
Operation and Maintenance of Plant	387,720	411,738	387,720	398,249
Pupil Transportation	112,047	121,064	99,740	121,064
Central	42,208	41,547	42,208	41,547
Food Service	89,071	93,782	12,128	6,022
Extracurricular Activities	134,582	135,736	81,972	80,753
Total Disbursements	\$3,183,412	\$3,292,672	\$2,449,788	\$2,658,868

Almost 77 percent of the School District's programs were provided for through general receipts in fiscal year 2012. However, there were a couple of programs which received substantial support through program receipts. Over 52 percent of special instruction program costs were provided for through program receipts, consisting primarily of grant resources restricted to special instruction activities. The entire vocational instruction program costs were provided for through career technical education program receipts through State foundation funding. Program receipts provided for 86 percent of the food service program costs. These resources included cafeteria sales and state and federal grants and commodities for the food service operations. Over 39 percent of program fees covered the costs associated with the extracurricular activities program. Sources of revenue for these programs included music and athletic fees, ticket sales, and gate receipts.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The General Fund had a 23 percent increase in fund balance from the prior fiscal year due to a modest increase in receipts and very little change in disbursements from fiscal year 2011.

The Permanent Improvement Fund had a 33 percent decrease in fund balance as the School District spent resources on maintenance and improvements.

Vanlue Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund Budgeting Highlights

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

For receipts, changes from the original budget to the final budget were primarily due to uncertainty of State foundation resources. Changes from the final budget to actual receipts were not significant. For disbursements, changes from the original budget to the final budget were not significant. However, changes from the final budget to actual disbursements were due to the School District spending conservatively.

Current Issues

Vanlue is a small rural community of 1,500 people in Northwest Ohio. Agriculture is the primary contributing influence on the economy.

Over the past several years, School District voters have supported the School District with the passage of a number of levies. In November 2005, the 4 mill permanent improvement levy was renewed for a continuing period. In May 2009, the two emergency levies were combined and renewed for a period of ten years at 10.6 mills. In May 2010, the voters again renewed the 1 percent income tax levy, but for a continuing period of time.

The Board of Education has been looking at new ways to provide an outstanding education while keeping costs in check. The School District is launching a "Bring Your Own Device" program for high school students in January 2013 and will also be launching a "1:1 Initiative" which will include providing Lenovo ThinkPad laptops to each seventh and eighth grader. The School District has also been looking at ways to share services and just approved a shared service agreement for Treasurer services with Kenton City School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Tracy Hiller, Treasurer, Vanlue Local School District, 301 South East Street, P.O. Box 250, Vanlue, Ohio 45890-0250.

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

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,124,248</u>
<u>Net Assets:</u>	
Restricted for:	
Capital Projects	\$82,270
Other Purposes	101,296
Unrestricted	<u>2,940,682</u>
Total Net Assets	<u>\$3,124,248</u>

See Accompanying Notes to Basic Financial Statements

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

	Program Cash Receipts			Net (Disbursement) Receipt and Change in Net Assets
Cash Disbursements	Charges for Services	Operating Grants, Contributions, and Interest	Governmental Activities	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$1,442,736	\$337,422	\$71,186	(\$1,034,128)
Special	307,289	0	160,914	(146,375)
Vocational	17,354	0	18,642	1,288
Support Services:				
Pupils	101,985	0	3,600	(98,385)
Instructional Staff	80,777	0	0	(80,777)
Board of Education	35,862	0	0	(35,862)
Administration	274,107	0	0	(274,107)
Fiscal	157,674	0	0	(157,674)
Operation and Maintenance of Plant	387,720	0	0	(387,720)
Pupil Transportation	112,047	0	12,307	(99,740)
Central	42,208	0	0	(42,208)
Food Service	89,071	44,142	32,801	(12,128)
Extracurricular Activities	134,582	46,712	5,898	(81,972)
Total Governmental Activities	<u>\$3,183,412</u>	<u>\$428,276</u>	<u>\$305,348</u>	<u>(2,449,788)</u>
<u>General Receipts:</u>				
Property Taxes Levied for:				
General Purposes				917,061
Permanent Improvements				74,304
Income Taxes Levied for General Purposes				425,631
Grants and Entitlements not Restricted to Specific Programs				1,496,674
Interest				9,251
Gifts and Donations				2,290
Miscellaneous				27,415
Total General Receipts				<u>2,952,626</u>
Change in Net Assets				502,838
Net Assets at Beginning of Year - Restated (Note 3)				<u>2,621,410</u>
Net Assets at End of Year				<u>\$3,124,248</u>

See Accompanying Notes to Basic Financial Statements

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,944,655	\$82,270	\$97,323	\$3,124,248
<u>Fund Balances:</u>				
Restricted	\$0	\$82,270	\$101,296	\$183,566
Committed	15,029	0	0	15,029
Assigned	76,395	0	0	76,395
Unassigned (Deficit)	2,853,231	0	(3,973)	2,849,258
Total Fund Balances	\$2,944,655	\$82,270	\$97,323	\$3,124,248

See Accompanying Notes to Basic Financial Statements

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

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Receipts:</u>				
Property Taxes	\$917,061	\$74,304	\$0	\$991,365
Income Taxes	425,631	0	0	425,631
Intergovernmental	1,609,983	12,761	172,337	1,795,081
Interest	9,251	0	8	9,259
Tuition and Fees	337,422	0	0	337,422
Extracurricular Activities	9	0	46,703	46,712
Charges for Services	0	0	44,142	44,142
Gifts and Donations	2,290	0	6,933	9,223
Miscellaneous	27,415	0	0	27,415
Total Receipts	3,329,062	87,065	270,123	3,686,250
<u>Disbursements:</u>				
Current:				
Instruction:				
Regular	1,417,869	2,500	22,367	1,442,736
Special	285,546	0	21,743	307,289
Vocational	17,354	0	0	17,354
Support Services:				
Pupils	53,676	0	48,309	101,985
Instructional Staff	29,110	0	51,667	80,777
Board of Education	35,862	0	0	35,862
Administration	274,101	0	6	274,107
Fiscal	154,732	2,942	0	157,674
Operation and Maintenance of Plant	259,902	117,814	10,004	387,720
Pupil Transportation	107,363	0	4,684	112,047
Central	42,208	0	0	42,208
Food Service	0	0	89,071	89,071
Extracurricular Activities	85,947	4,099	44,536	134,582
Total Disbursements	2,763,670	127,355	292,387	3,183,412
Excess of Receipts Over (Under) Disbursements	565,392	(40,290)	(22,264)	502,838
<u>Other Financing Sources (Uses)</u>				
Transfers In	0	0	15,000	15,000
Transfers Out	(15,000)	0	0	(15,000)
Total Other Financing Sources (Uses)	(15,000)	0	15,000	0
Changes in Fund Balances	550,392	(40,290)	(7,264)	502,838
Fund Balances at Beginning of Year - Restated (Note 3)	2,394,263	122,560	104,587	2,621,410
Fund Balances at End of Year	\$2,944,655	\$82,270	\$97,323	\$3,124,248

See Accompanying Notes to Basic Financial Statements

Vanue Local School District
Statement of Receipts, Disbursements, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Receipts:</u>				
Property Taxes	\$893,964	\$923,964	\$917,061	(\$6,903)
Income Taxes	424,375	424,375	425,631	1,256
Intergovernmental	1,398,982	1,605,482	1,609,983	4,501
Interest	15,668	8,668	9,251	583
Tuition and Fees	329,808	337,108	337,422	314
Extracurricular Activities	0	0	9	9
Gifts and Donations	711	1,700	2,290	590
Miscellaneous	2,076	17,329	17,665	336
Total Receipts	3,065,584	3,318,626	3,319,312	686
<u>Disbursements:</u>				
Current:				
Instruction:				
Regular	1,624,244	1,498,081	1,423,661	74,420
Special	339,605	337,209	289,774	47,435
Vocational	35,350	30,350	17,354	12,996
Support Services:				
Pupils	64,111	67,289	54,294	12,995
Instructional Staff	89,873	64,670	31,880	32,790
Board of Education	67,710	70,210	41,283	28,927
Administration	302,576	303,277	282,157	21,120
Fiscal	142,470	170,420	156,589	13,831
Operation and Maintenance of Plant	352,182	362,649	285,103	77,546
Pupil Transportation	158,155	151,705	119,653	32,052
Central	45,739	50,379	43,072	7,307
Extracurricular Activities	119,524	111,733	87,337	24,396
Total Disbursements	3,341,539	3,217,972	2,832,157	385,815
Excess of Receipts Over (Under) Disbursements	(275,955)	100,654	487,155	386,501
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	33,697	3,697	9,750	6,053
Refund of Prior Year Receipts	(500)	(500)	0	500
Transfers Out	(20,000)	(20,000)	(15,000)	5,000
Total Other Financing Sources (Uses)	13,197	(16,803)	(5,250)	11,553
Changes in Fund Balance	(262,758)	83,851	481,905	398,054
Fund Balance at Beginning of Year	2,350,053	2,350,053	2,350,053	0
Prior Year Encumbrances Appropriated	44,210	44,210	44,210	0
Fund Balance at End of Year	\$2,131,505	\$2,478,114	\$2,876,168	\$398,054

See Accompanying Notes to Basic Financial Statements

Value Local School District
Statement of Cash Basis Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2012

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$27,774</u>
 <u>Liabilities</u>	
Due to Students	<u>\$27,774</u>

See Accompanying Notes to Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1922. The School District serves an area of approximately forty-nine square miles and is located in Hancock, Seneca, and Wyandot Counties and includes all of the Village of Vanlue and portions of Amanda, Biglick, Big Spring, and Ridge Townships. The School District is the 608th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifteen classified employees, twenty-three certified teaching personnel, and two administrative employees who provide services to 224 students and other community members. The School District currently operates an instructional building and a bus garage.

Reporting Entity

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

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

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Schools of Ohio Risk Sharing Authority, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and Hancock County Schools Health Benefit Fund. These organizations are presented in Notes 14 and 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund and the Permanent Improvement capital projects fund.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for property tax and related receipts restricted for the acquisition or construction of permanent improvements.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2012. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

During fiscal year 2012, the School District invested in nonnegotiable certificates of deposit and STAR Ohio. Investments are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s net asset value per share, which is the price the investment could be sold for on June 30, 2012.

The Board of Education has allocated interest earnings according to state statutes. Interest revenue credited to the General Fund during fiscal year 2012 was \$9,251, which includes \$750 assigned from other School District funds.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

F. Capital Assets

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

G. Compensated Absences

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

H. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. 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:

Nonspendable - The nonspendable 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.

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 are imposed by law through constitutional provisions.

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.

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.

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

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

K. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

NOTE 3 - RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2012, the School District reclassified a fund that had been misclassified in prior fiscal years. The restatement due to the change in fund structure had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
Fund Balance at June 30, 2011	\$2,394,241	\$122,560	\$104,587	\$2,621,388
Change in Fund Structure	22	0	0	22
Adjusted Fund Balance at June 30, 2011	<u>\$2,394,263</u>	<u>\$122,560</u>	<u>\$104,587</u>	<u>\$2,621,410</u>

The restatement had the following effect on net assets.

	Total Governmental Activities	Private Purpose Trust
Net Assets at June 30, 2011	\$2,621,388	\$22
Change in Fund Structure	22	(22)
Restated Net Assets at June 30, 2011	<u>\$2,621,410</u>	<u>\$0</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash, receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as committed or assigned fund balance (cash basis). The General Fund encumbrances outstanding at year end (budgetary basis) were \$68,487.

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. 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.

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,005,415 of the School District's bank balance of \$2,931,582 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2012, the fair value of funds on deposit with STAR Ohio was \$230,423. The School District's investments in STAR Ohio have an average maturity of 52.5 days. STAR Ohio carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 6 - PROPERTY TAXES

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

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

Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Hancock, Seneca, and Wyandot Counties. The County Auditors periodically advance to the School District its portion of the taxes collected.

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 6 - PROPERTY TAXES (continued)

Second-half real property tax payments collected by the counties 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 fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$33,541,580	95.17%	\$33,924,200	95.12%
Industrial/Commercial	841,270	2.39	843,580	2.37
Public Utility	861,900	2.44	895,170	2.51
Total Assessed Value	<u>\$35,244,750</u>	<u>100.00%</u>	<u>\$35,662,950</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.22		\$44.21	

NOTE 7 - INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2006, for a five-year period. In May 2010, the voters renewed the 1 percent income tax for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted for the following insurance coverage.

Coverage provided by the Schools of Ohio Risk Sharing Authority is as follows:

General School District Liability	
Per Occurrence	\$12,000,000
Total per Year	14,000,000
Automobile Liability	12,000,000
Buildings and Contents - replacement cost	11,515,594

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

NOTE 8 - RISK MANAGEMENT (continued)

For fiscal year 2012, the School District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

The School District participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The School District pays monthly premiums to the Fund for employee medical, dental and vision insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. 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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on 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 DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$125,912 and \$5,277 for the fiscal year ended June 30, 2012, \$138,704 and \$4,106 for the fiscal year ended June 30, 2011, and \$125,159 and \$4,141 for the fiscal year ended June 30, 2010. For fiscal year 2012, 81 percent has been contributed for both the DBP and the CP. The full amount has been contributed for fiscal years 2011 and 2010.

The contribution to STRS Ohio for the DCP for fiscal year 2012 was \$450 made by the School District and \$322 made by the plan members. In addition, member contributions of \$3,769 were made for fiscal year 2012 for the defined contribution portion of the CP.

B. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the 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 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 was \$43,259, \$48,255, and \$52,833, respectively. For fiscal year 2012, 35 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2012, none of the Board of

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - The School District participates in a cost-sharing multiple-employer defined benefit Health Care 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. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Chapter 3307 of the Ohio Revised Code 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$10,126, \$11,022, and \$10,074, respectively. For fiscal year 2012, 81 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

B. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified 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 as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal 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 fiscal year 2012, .55 percent of covered payroll was allocated to health care.

In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2012, this amount was \$35,800. For fiscal year 2012, the School District paid \$6,829 in surcharge.

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$1,873, \$5,843, and \$1,902, respectively. For fiscal year 2012, 35 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2012, this actuarially required allocation was .75 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 was \$2,555, \$3,105, and \$3,142, respectively. For fiscal year 2012, 35 percent has been contributed. The full amount has been contributed for fiscal years 2011 and 2010.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty-five days for teachers and one hundred eighty days for classified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit up to a maximum of thirty days for all employees. Teachers receive an additional severance payment of up to thirty days for accumulated sick leave in excess of one hundred eighty-five days.

B. Employee Insurance Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 12 - FUND BALANCE

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

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 12 - FUND BALANCE (continued)

Fund Balance	General	Permanent Improvement	Other Governmental	Total Governmental Funds
Restricted for:				
Athletics and Music	\$0	\$0	\$45,344	\$45,344
Food Service Operations	0	0	28,427	28,427
Permanent Improvements	0	82,270	60	82,330
Regular Instruction	0	0	27,340	27,340
Special Instruction	0	0	125	125
Total Restricted	<u>0</u>	<u>82,270</u>	<u>101,296</u>	<u>183,566</u>
Committed for:				
Termination Benefits	<u>15,029</u>	<u>0</u>	<u>0</u>	<u>15,029</u>
Assigned for:				
Extracurricular Activities	6,315	0	0	6,315
Regular Instruction	1,893	0	0	1,893
Unpaid Obligations	68,187	0	0	68,187
Total Assigned	<u>76,395</u>	<u>0</u>	<u>0</u>	<u>76,395</u>
Unassigned (Deficit)	<u>2,853,231</u>	<u>0</u>	<u>(3,973)</u>	<u>2,849,258</u>
Total Fund Balance	<u>\$2,944,655</u>	<u>\$82,270</u>	<u>\$97,323</u>	<u>\$3,124,248</u>

NOTE 13 - SET ASIDE REQUIREMENTS

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory for the acquisition and construction of capital improvements. The amount 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. This amount must be carried forward and used for the same purpose in future fiscal years.

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

	<u>Capital Improvements</u>
Balance June 30, 2011	\$0
Current Year Set Aside Requirement	43,030
Current Year Offsets	<u>(43,030)</u>
Set Aside Reserve Balance June 30, 2012	<u>\$0</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (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. Marys 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. During fiscal year 2012, the School District paid \$15,771 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1219 West Main Cross, Suite 101, Findlay, Ohio 45840-3377.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

NOTE 15 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund (Fund) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Fund is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the Consultant, Neace Lukens, concerning aspects of the administration of the Fund.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Aaron Moore, Neace Lukens, 900 Croghan Street, Fremont, Ohio 43420.

NOTE 16 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2012.

Vanlue Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 16 – CONTINGENCIES (continued)

B. Litigation

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

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Dave Yost • Auditor of State

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

Vanlue Local School District
Hancock County
301 South East Street, P.O. Box 250
Vanlue, Ohio 45890-0250

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vanlue Local School District, Hancock County, Ohio (the District) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of

noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 21, 2014

VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

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

FINDING NUMBER 2012-001

Noncompliance Citation

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

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements in a cash format which is a comprehensive basis of accounting other than generally accepted accounting principles. 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 Revised Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the District prepare its statements in accordance with accounting principles generally accepted in the United States of America.

Officials' Response:

The District has had to find ways to cut costs. There was no financial benefit to the District for preparing their financial statements on a GAAP-basis. Rather, it increased expenditures to the District for the cost of our biennial audit. The GAAP-basis financial statements were of no benefit to the District. The District has no plans to change how they are reporting.

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**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK 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 Longer Valid; <i>Explain</i>
2011-001	Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(B) for not filing GAAP financial statements.	No	Not corrected; reissued in this report as Finding 2012-001.

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Dave Yost • Auditor of State

VANLUE LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 11, 2014**