

ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

BASIC FINANCIAL STATEMENTS – CASH BASIS

For The Year Ended June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Allen East Local School District
Harrod, Ohio

We have reviewed the Independent Auditor's Report of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 4, 2005

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**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 4, 2004

The Board of Education
Allen East Local School District
Allen County, Ohio

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen East Local School District, Allen County, Ohio (the District), as of and for the year ended June 30, 2004, 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 that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than generally accepted 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-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio, as of June 30, 2004, and the respective changes in financial position-modified cash basis and the respective budgetary comparison for the General and Permanent Improvements, OSFC Building and OSFC Local/State Share Funds thereof 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 November 4, 2004 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. That report describes the scope of our testing of internal controls over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

The *Management's Discussion and Analysis* is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The discussion and analysis of the Allen East Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- General Receipts accounted for \$7,014,302 in revenue or 85% of all revenues.
- Total program expenses were \$7,323,352; \$6,961,296 in governmental activities.
- In total, net assets increased \$9,349,799.
- The District passed an \$8.5 million Bond issued in March, 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Allen East 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, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2004, the OSFC Local/State Share Fund is by far the most significant fund.

Basis of Accounting

The School District has elected to present its financial statements on a 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 cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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 2004?" 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 and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the general fund, Permanent Improvements fund, the OSFC Building Fund and the OSFC Local/State Share fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has three enterprise funds – the Food Service Fund, Uniform School Supplies Fund and the Recreation Fund.

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 16 and 17. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The 2003 financial statements were prepared in accordance with generally accepted accounting principles but did not include the implementation of GASB 34. As a result, attempting to compare this year's data to last years would be misleading to the reader. The School District will provide this comparative analysis in subsequent years.

Table 1 provides a summary of the School District's net assets for 2004:

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	Business-Type Activities	Fiduciary Activities	Totals
ASSETS				
Cash & cash equivalents	\$ 11,144,329	\$ 16,802	\$ 32,712	\$11,193,843
Total Assets	\$ 11,144,329	\$ 16,802	\$ 32,712	\$11,193,843
NET ASSETS				
Restricted:				
Capital Projects	\$ 9,180,835	\$ 0	\$ 0	\$ 9,180,835
Unrestricted	1,963,494	16,802	32,712	2,013,003
Total Net Assets	\$ 11,144,329	\$ 16,802	\$ 32,712	\$11,193,838

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	Governmental Activities	Business-Type Activities	Fiduciary Activities
Revenues			
<i>Program Revenues</i>			
Charges for Services	\$ 134,636	\$ 275,431	\$ 0
Operating Grants	287,229	59,463	0
Capital Grants	8,901,923	0	0
<i>General Revenues</i>			
Property Taxes	2,081,501	0	0
Grants and Entitlements	4,867,860	0	0
Other	64,941	167	46,585
Transfers-In	<u>0</u>	<u>20,000</u>	<u>0</u>
Total Revenues	16,338,090	355,061	46,585
<i>Program Expenses</i>			
Instruction	4,025,965	0	0
Support Services	2,651,513	0	0
Non-Instructional	71	0	0
Extracurricular	269,370	0	0
Capital Outlay	14,377	0	0
Transfers-Out	20,000	0	0
Salaries and Fringe Benefits	0	185,403	0
Purchased Services	0	1,562	0
Materials and Supplies	0	175,091	0
Miscellaneous	<u>0</u>	<u>0</u>	<u>37,311</u>
Total Expenses	<u>6,981,296</u>	<u>362,056</u>	<u>37,311</u>
Increase (Decrease) in Net Assets	<u>\$ 9,356,794</u>	<u>\$ (6,995)</u>	<u>\$ 9,274</u>

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Governmental Activities

Several revenue sources fund the School District's governmental activities with school foundation program being the largest contributor. School foundation provided \$4.6 million in 2004. Property tax levies generated \$1.7 million. General revenues from grants and entitlements are also a large revenue generator. With the combination of taxes and intergovernmental funding over 80% of expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2004 have not been made since they are not available.

(Table 3)
Governmental Activities

	2004	
	Total Cost of Service	Net (Receipts) Cost of Service
Instruction	\$ 4,025,965	\$ 3,832,513
Support Services:		
Pupil and Instructional Staff	596,528	453,164
Board of Education, Administration		
Fiscal and Business	967,492	967,492
Operation and Maintenance of Plant	607,440	598,440
Pupil Transportation	462,252	462,252
Central	17,801	12,801
Food Service	71	(1,000)
Extracurricular Activities	269,370	178,757
Capital Outlay	14,377	(8,866,911)
Total	\$ 6,961,296	\$ (2,362,492)

Instruction and student support services comprise 66% of governmental program expenses. Interest, fiscal and administration charges were 13%. Interest expense was attributable to the outstanding bonds, fiscal expenses include payments to the County Auditor(s) for administrative fees and other administrative services provided by the District. Pupil transportation and the operation/maintenance of facilities accounts for 15% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Allen East Local School District students.

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Business-Type Activities

In reviewing the business-type activities' net revenue/ (expense) resulting from cash basis transactions, there are certain activities that will be examined in an effort to obtain positive cash flow in the future.

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 2004, the School District did significantly modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$6,876,917 over the original budget estimates of \$6,751,536. Of this \$125,381 increase, most was attributable to an increase in intergovernmental revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$8,786,973 invested in land, buildings, vehicles and equipment. Table 4 shows fiscal year 2004 balances compared with 2003.

(Table 4)
Capital Assets at June 30,
(Net of Depreciation)

	2004	2003
Land	\$ 958,859	\$ 951,275
Buildings and Building Improvements	4,137,050	4,130,273
Furniture and Equipment	2,147,653	1,272,240
Books – Educational	471,780	471,780
Vehicles	1,071,631	1,021,167
Totals	\$ 8,786,973	\$ 7,846,735

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks (see note 11). For fiscal year 2004, this amounted to \$150,949 for each set aside. The School District has qualifying disbursements or offsets for capital acquisition equaling \$395,950. For the textbooks, the School District disbursed \$91,489, with the remainder scheduled to be carried forward into the 2005 fiscal year.

Debt

In 2004, the School District passed a bond issue providing \$8.5 million for the purpose of an Ohio School Facilities Commission project. The District will be funded by the OSFC at 79% for their portion of the project.

At June 30, 2004, the School District had an \$8,500,000 Bond Anticipation Note outstanding with the entire amount due within one year. See note 10 for additional details. During the previous fiscal year 2003, the District had no debt. Table 5 summarizes the outstanding debt.

(Table 5)
Outstanding Debt, at June 30,

	Governmental Activities	
	2004	2003
Bond Anticipation Notes	\$ 8,500,000	\$ 0

Current Issues

The Allen East Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last emergency levy was passed by the residents of the district in November 1994, with the promise that the revenue generated by a levy would provide sufficient funding for five years. In November 2004, the Board of Education submitted a new emergency levy which was approved by the residents.

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

Allen East Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 27% of revenues for governmental activities for the Allen East Local School District in fiscal year 2004.

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

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

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

Another School District concern is the State Legislative approval of the biennial budget, effective July 1, 2003, which had a negative impact on the district. How the legislature plans to fund educational programs during a weakened economy remains a concern.

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rhonda Zimmerly, Treasurer of Allen East Local School District, 9520 Harrod Road, Harrod, OH 45850 or ae_treas@noacsc.org.

Allen East Local School District
Statement of Net Assets - Cash Basis
 June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,144,329	\$ 16,802	\$ 11,161,131
<i>Total Assets</i>	<u>\$ 11,144,329</u>	<u>\$ 16,802</u>	<u>\$ 11,161,131</u>
 Net Assets			
Restricted for:			
Capital Projects	\$ 9,180,835	\$ 0	\$ 9,180,835
Unrestricted	1,963,494	16,802	1,980,296
<i>Total Net Assets</i>	<u>\$ 11,144,329</u>	<u>\$ 16,802</u>	<u>\$ 11,161,131</u>

See accompanying notes to the financial statements

Allen East Local School District
Statement of Activities - Cash Basis
For the Year Ended June 30, 2004

	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 and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction							
Regular	\$ 3,377,058	\$ 19,392	\$ 31,701	\$ 20,635	\$ (3,305,330)	\$ 0	\$ (3,305,330)
Special	472,319	0	102,212	0	(370,107)	0	(370,107)
Adult/Continuing	5,069	0	2,925	0	(2,144)	0	(2,144)
Other	171,519	0	16,587	0	(154,932)	0	(154,932)
Support Services							
Pupil	409,280	24,631	104,766	0	(279,883)	0	(279,883)
Instructional Staff	187,248	0	13,967	0	(173,281)	0	(173,281)
Board of Education	25,707	0	0	0	(25,707)	0	(25,707)
Administration	686,152	0	0	0	(686,152)	0	(686,152)
Fiscal	188,756	0	0	0	(188,756)	0	(188,756)
Business	66,877	0	0	0	(66,877)	0	(66,877)
Operation and Maintenance of Plant	607,440	0	9,000	0	(598,440)	0	(598,440)
Pupil Transportation	462,252	0	0	0	(462,252)	0	(462,252)
Central	17,801	0	5,000	0	(12,801)	0	(12,801)
Operation of Non-Instructional Services	71	0	1,071	0	1,000	0	1,000
Extracurricular Activities	269,370	90,613	0	0	(178,757)	0	(178,757)
Capital Outlay							
Facilities Acquisition and Construction	14,377	0	0	8,881,288	8,866,911	0	8,866,911
Total Governmental Activities	6,961,296	134,636	287,229	8,901,923	2,362,492	0	2,362,492
Business-Type Activities:							
Salaries	108,280	97,216	0	0	0	(11,064)	(11,064)
Fringe Benefits	77,123	69,179	0	0	0	(7,944)	(7,944)
Purchased Services	1,562	1,401	0	0	0	(161)	(161)
Materials and Supplies	175,091	107,635	59,463	0	0	(7,993)	(7,993)
Total Business-Type Activities	362,056	275,431	59,463	0	0	(27,162)	(27,162)
Totals	\$ 7,323,352	\$ 410,067	\$ 346,692	\$ 8,901,923	2,362,492	(27,162)	2,335,330
	General Receipts						
	Property Taxes Levied for:						
	General Purposes				2,081,501	0	2,081,501
	Grants and Entitlements not Restricted to Specific Programs				4,867,860	0	4,867,860
	Interest				24,433	167	24,600
	Miscellaneous				40,508	0	40,508
	Total General Receipts				7,014,302	167	7,014,469
	Transfers				(20,000)	20,000	0
	Total General Receipts and Transfers				6,994,302	20,167	7,014,469
	Change in Net Assets				9,356,794	(6,995)	9,349,799
	Net Assets Beginning of Year (Restated)				1,787,535	23,797	1,811,332
	Net Assets End of Year				\$ 11,144,329	\$ 16,802	\$ 11,161,131

See accompanying notes to the financial statements

Allen East Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2004

	General Fund	Permanent Projects Fund	OSFC Building Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 1,786,762	\$ 305,076	\$ 2,230,000	\$ 6,625,133	\$ 197,358	\$ 11,144,329
<i>Total Assets</i>	<u>\$ 1,786,762</u>	<u>\$ 305,076</u>	<u>\$ 2,230,000</u>	<u>\$ 6,625,133</u>	<u>\$ 197,358</u>	<u>\$ 11,144,329</u>
 Fund Balances						
Reserved for Encumbrances	\$ 143,889	\$ 21,781	\$ 0	\$ 0	\$ 99,097	\$ 264,767
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	1,642,873	0	0	0	0	1,642,873
Special Revenue Funds	0	0	0	0	23,216	23,216
Debt Service Funds	0	0	0	0	625	625
Capital Projects Funds	0	283,295	2,230,000	6,625,133	0	9,138,428
Expendable Trust Fund	0	0	0	0	74,420	74,420
<i>Total Fund Balances</i>	<u>\$ 1,786,762</u>	<u>\$ 305,076</u>	<u>\$ 2,230,000</u>	<u>\$ 6,625,133</u>	<u>\$ 197,358</u>	<u>\$ 11,144,329</u>

See accompanying notes to the financial statements

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
For the Year Ended June 30, 2004

	General Fund	Permanent Projects Fund	OSFC Building Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property Taxes	\$ 1,938,971	\$ 142,529	\$ 0	\$ 0	\$ 0	\$ 2,081,500
Intergovernmental	4,867,860	26,241	0	355,048	307,854	5,557,003
Interest	23,732	0	0	85	616	24,433
Tuition and Fees	19,392	0	0	0	1,351	20,743
Extracurricular Activities	0	0	0	0	113,892	113,892
Miscellaneous	15,711	0	0	0	13,557	29,268
<i>Total Receipts</i>	<u>6,865,666</u>	<u>168,770</u>	<u>0</u>	<u>355,133</u>	<u>437,270</u>	<u>7,826,839</u>
Disbursements						
Current:						
Instruction						
Regular	3,341,368	0	0	0	35,690	3,377,058
Special	367,287	0	0	0	105,032	472,319
Adult/Continuing	0	0	0	0	5,069	5,069
Other	157,485	0	0	0	14,034	171,519
Support Services						
Pupil	289,881	0	0	0	119,399	409,280
Instructional Staff	171,312	0	0	0	15,936	187,248
Board of Education	25,707	0	0	0	0	25,707
Administration	686,152	0	0	0	0	686,152
Fiscal	186,052	2,704	0	0	0	188,756
Business	66,877	0	0	0	0	66,877
Operation and Maintenance of Plant	591,304	7,136	0	0	9,000	607,440
Pupil Transportation	408,166	54,086	0	0	0	462,252
Central	14,603	0	0	0	3,198	17,801
Operation of Non-Instructional Services	0	0	0	0	71	71
Extracurricular Activities	153,916	0	0	0	115,454	269,370
Capital Outlay						
Facilities Acquisition and Construction	0	14,377	0	0	0	14,377
<i>Total Disbursements</i>	<u>6,460,110</u>	<u>78,303</u>	<u>0</u>	<u>0</u>	<u>422,883</u>	<u>6,961,296</u>
<i>Excess of Receipts Over Disbursements</i>	<u>405,556</u>	<u>90,467</u>	<u>0</u>	<u>355,133</u>	<u>14,387</u>	<u>865,543</u>
Other Financing Sources (Uses)						
Proceeds of Bond Anticipation Notes	0	0	2,230,000	6,270,000	0	8,500,000
Refund of Prior Year Expenditures	11,251	0	0	0	0	11,251
Operating Transfers - Out	(20,000)	0	0	0	0	(20,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(8,749)</u>	<u>0</u>	<u>2,230,000</u>	<u>6,270,000</u>	<u>0</u>	<u>8,491,251</u>
<i>Net Change in Fund Balances</i>	<u>396,807</u>	<u>90,467</u>	<u>2,230,000</u>	<u>6,625,133</u>	<u>14,387</u>	<u>9,356,794</u>
<i>Fund Balances Beginning (Restated)</i>	<u>1,389,955</u>	<u>214,609</u>	<u>0</u>	<u>0</u>	<u>182,971</u>	<u>1,787,535</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,786,762</u>	<u>\$ 305,076</u>	<u>\$ 2,230,000</u>	<u>\$ 6,625,133</u>	<u>\$ 197,358</u>	<u>\$ 11,144,329</u>

See accompanying notes to the financial statements

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Receipts				
Property Taxes	\$ 1,938,500	\$ 2,119,000	\$ 1,938,971	\$ (180,029)
Intergovernmental	4,730,000	5,782,950	4,867,860	(915,090)
Interest	140,098	96,500	23,732	(72,768)
Tuition and Fees	0	10,600	19,392	8,792
Extracurricular Activities	0	0	0	0
Miscellaneous	3,000	7,600	15,711	8,111
<i>Total Receipts</i>	<u>6,811,598</u>	<u>8,016,650</u>	<u>6,865,666</u>	<u>(1,150,984)</u>
Disbursements				
Current:				
Instruction				
Regular	3,722,420	3,725,200	3,341,368	383,832
Special	514,340	583,410	367,287	216,123
Adult/Continuing	0	0	0	0
Other	0	207,000	157,485	49,515
Support Services				
Pupil	280,860	328,300	289,881	38,419
Instructional Staff	197,410	216,000	171,312	44,688
Board of Education	38,000	62,100	25,707	36,393
Administration	732,930	840,500	686,152	154,348
Fiscal	173,980	207,871	186,052	21,819
Business	100,000	78,500	66,877	11,623
Operation and Maintenance of Plant	598,270	807,170	591,304	215,866
Pupil Transportation	552,600	657,450	408,166	249,284
Central	111,500	80,500	14,603	65,897
Operation of Non-Instructional Services	0	0	0	0
Extracurricular Activities	143,570	189,150	153,916	35,234
Capital Outlay				
Facilities Acquisition and Construction	0	5,000	0	5,000
<i>Total Disbursements</i>	<u>7,165,880</u>	<u>7,988,151</u>	<u>6,460,110</u>	<u>1,528,041</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(354,282)</u>	<u>28,499</u>	<u>405,556</u>	<u>377,057</u>
Other Financing Sources (Uses)				
Proceeds of Bond Anticipation Notes	0	0	0	0
Proceeds from Disposition of Fixed Assets	0	5,500	0	(5,500)
Refund of Prior Year Receipts	0	8,500	11,251	2,751
Operating Transfers - Out	(1,500)	(26,500)	(20,000)	6,500
<i>Total Other Financing Sources (Uses)</i>	<u>(1,500)</u>	<u>(12,500)</u>	<u>(8,749)</u>	<u>3,751</u>
<i>Net Change in Fund Balance</i>	(355,782)	15,999	396,807	380,808
<i>Fund Balance Beginning of Year (Restated)</i>	<u>1,389,955</u>	<u>1,389,955</u>	<u>1,389,955</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 1,034,173</u>	<u>\$ 1,405,954</u>	<u>\$ 1,786,762</u>	<u>\$ 380,808</u>

See accompanying notes to the financial statements

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual
Permanent Projects Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Receipts				
Property Taxes	\$ 137,600	\$ 166,185	\$ 142,529	\$ (23,656)
Intergovernmental	49,800	248,690	26,241	(222,449)
Interest	0	0	0	0
Tuition and Fees	0	0	0	0
Contributions and Donations	0	0	0	0
Charges for Services	0	0	0	0
Rentals	0	0	0	0
Fines and Forfeitures	0	0	0	0
Miscellaneous	0	0	0	0
<i>Total Receipts</i>	<u>187,400</u>	<u>414,875</u>	<u>168,770</u>	<u>(246,105)</u>
Disbursements				
Current:				
Instruction				
Regular	0	0	0	0
Special	0	0	0	0
Adult/Continuing	0	0	0	0
Other	0	0	0	0
Support Services				
Pupil	0	0	0	0
Instructional Staff	0	0	0	0
Board of Education	0	0	0	0
Administration	0	0	0	0
Fiscal	3,000	4,200	2,704	1,496
Business	0	0	0	0
Operation and Maintenance of Plant	152,500	150,775	7,136	143,639
Pupil Transportation	50,000	110,000	54,086	55,914
Central	0	0	0	0
Extracurricular Activities	0	0	0	0
Capital Outlay				
Facilities Acquisition and Construction	43,000	149,900	14,377	135,523
<i>Total Disbursements</i>	<u>248,500</u>	<u>414,875</u>	<u>78,303</u>	<u>336,572</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(61,100)</u>	<u>0</u>	<u>90,467</u>	<u>90,467</u>
Other Financing Sources (Uses)				
Proceeds of Bond Anticipation Notes	0	0	0	0
Proceeds from Disposition of Fixed Assets	0	0	0	0
Refund of Prior Year Receipts	0	0	0	0
Operating Transfers - Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(61,100)	0	90,467	90,467
<i>Fund Balance Beginning of Year (Restated)</i>	<u>214,609</u>	<u>214,609</u>	<u>214,609</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 153,509</u>	<u>\$ 214,609</u>	<u>\$ 305,076</u>	<u>\$ 90,467</u>

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual
OSFC Building Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Receipts				
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental	0	0	0	0
Interest	0	0	0	0
Tuition and Fees	0	0	0	0
Contributions and Donations	0	0	0	0
Charges for Services	0	0	0	0
Rentals	0	0	0	0
Fines and Forfeitures	0	0	0	0
Miscellaneous	0	0	0	0
<i>Total Receipts</i>	0	0	0	0
Disbursements				
Current:				
Instruction				
Regular	0	0	0	0
Special	0	0	0	0
Adult/Continuing	0	0	0	0
Other	0	0	0	0
Support Services				
Pupil	0	0	0	0
Instructional Staff	0	0	0	0
Board of Education	0	0	0	0
Administration	0	0	0	0
Fiscal	0	0	0	0
Business	0	0	0	0
Operation and Maintenance of Plant	0	0	0	0
Pupil Transportation	0	0	0	0
Central	0	0	0	0
Extracurricular Activities	0	0	0	0
Capital Outlay				
Facilities Acquisition and Construction	0	0	0	0
<i>Total Disbursements</i>	0	0	0	0
<i>Excess of Receipts Over (Under) Disbursements</i>	0	0	0	0
Other Financing Sources (Uses)				
Proceeds of Bond Anticipation Notes	0	0	2,230,000	2,230,000
Proceeds from Disposition of Fixed Assets	0	0	0	0
Refund of Prior Year Receipts	0	0	0	0
Operating Transfers - Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	0	0	2,230,000	2,230,000
<i>Net Change in Fund Balance</i>	0	0	2,230,000	2,230,000
<i>Fund Balance Beginning of Year (Restated)</i>	0	0	0	0
<i>Fund Balance End of Year</i>	\$ 0	\$ 0	\$ 2,230,000	\$ 2,230,000

See accompanying notes to the financial statements

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual
OSFC Local/State Share Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
Receipts				
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental	0	189,222	355,048	165,826
Interest	0	0	85	85
Tuition and Fees	0	0	0	0
Contributions and Donations	0	0	0	0
Charges for Services	0	0	0	0
Rentals	0	0	0	0
Fines and Forfeitures	0	0	0	0
Miscellaneous	0	0	0	0
<i>Total Receipts</i>	0	189,222	355,133	165,911
Disbursements				
Current:				
Instruction				
Regular	0	0	0	0
Special	0	0	0	0
Adult/Continuing	0	0	0	0
Other	0	0	0	0
Support Services				
Pupil	0	0	0	0
Instructional Staff	0	0	0	0
Board of Education	0	0	0	0
Administration	0	0	0	0
Fiscal	0	0	0	0
Business	0	0	0	0
Operation and Maintenance of Plant	0	0	0	0
Pupil Transportation	0	0	0	0
Central	0	0	0	0
Extracurricular Activities	0	0	0	0
Capital Outlay				
Facilities Acquisition and Construction	0	189,222	0	189,222
<i>Total Disbursements</i>	0	189,222	0	189,222
<i>Excess of Receipts Over (Under) Disbursements</i>	0	0	355,133	355,133
Other Financing Sources (Uses)				
Proceeds of Bond Anticipation Notes	0	0	6,270,000	6,270,000
Proceeds from Disposition of Fixed Assets	0	0	0	0
Refund of Prior Year Receipts	0	0	0	0
Operating Transfers - Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	0	0	6,270,000	6,270,000
<i>Net Change in Fund Balance</i>	0	0	6,625,133	6,625,133
<i>Fund Balance Beginning of Year (Restated)</i>	0	0	0	0
<i>Fund Balance End of Year</i>	\$ 0	\$ 0	\$ 6,625,133	\$ 6,625,133

See accompanying notes to the financial statements

Allen East Local School District
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
June 30, 2004

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets	
Cash and Cash Equivalents	<u>\$ 16,802</u>
 <i>Total Assets</i>	 <u><u>\$ 16,802</u></u>
 Net Assets	
Unrestricted	<u>\$ 16,802</u>
 <i>Total Net Assets</i>	 <u><u>\$ 16,802</u></u>

See accompanying notes to the financial statements

Allen East Local School District
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended June 30, 2004*

	Business-Type Activity
	Enterprise
Operating Receipts	
Charges for Services	\$ 275,431
<i>Total Operating Receipts</i>	275,431
Operating Disbursements	
Salaries	108,280
Fringe Benefits	77,123
Purchased Services	1,562
Materials and Supplies	175,091
<i>Total Operating Expenses</i>	362,056
<i>Operating Loss</i>	(86,625)
Non-Operating Revenues	
Federal and State Subsidies	59,463
Interest	167
Operating Transfers-In	20,000
<i>Total Non-Operating Revenues</i>	79,630
<i>Change in Net Assets</i>	(6,995)
<i>Net Assets Beginning of Year (Restated)</i>	23,797
<i>Net Assets End of Year</i>	\$ 16,802

See accompanying notes to the financial statements

Allen East Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	\$ 2,168	\$ 30,544
<i>Total Assets</i>	<u>\$ 2,168</u>	<u>\$ 30,544</u>
Net Assets		
Unrestricted	\$ 2,168	\$ 30,544
<i>Total Net Assets</i>	<u>\$ 2,168</u>	<u>\$ 30,544</u>

See accompanying notes to the financial statements

Allen East Local School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust	Agency
Additions		
Investment Income	\$ 20	\$ 0
Extracurricular Activities	0	46,565
<i>Total Additions</i>	20	46,565
 Deductions		
Student Activities	0	(37,311)
<i>Change in Net Assets</i>	20	9,254
<i>Net Assets - Beginning of Year (Restated)</i>	2,148	21,290
<i>Net Assets - End of Year</i>	\$ 2,168	\$ 30,544

See accompanying notes to the financial statements

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is the 470th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 41 non-certificated employees and 75 certificated full-time teaching personnel who provide services to 1,098 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Allen East Local School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

The School District is associated with three organizations which are defined as jointly governed organizations, and an insurance purchasing pool. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for the business-type activities of the School district. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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. Revenues which are not classified as program revenues are presented as general revenues of the School District with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each 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 revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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 and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

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

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise 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:

Governmental Funds/Governmental Activities

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

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Permanent Projects Fund	This fund accounts for the specific revenue to be used for the repair and maintenance or purchase of permanent projects and assets such as paving or bus and computer purchases.
OSFC Local/State Share Fund	This fund accounts for the specific revenue to be used for the new school building project.
OSFC Building Fund	This fund accounts for the specific revenue to be used for road and utility improvements, bus garage, athletic field and additional miscellaneous capital projects.

Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary fund accounts for the Uniform School Supplies community recreation and lunch room funds.

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 accounts for scholarships for students. Agency funds are custodial in nature (assets equal liabilities) 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.

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 each function of each fund. 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.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

Tax Budget

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

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

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as 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 revenue are identified by the School District Treasurer.

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 fund, function, and object level of expenditures, 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 expenditures 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 a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

Encumbrances

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

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

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 reappropriated.

D. Cash and Cash Equivalents

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

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

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

E. Property, Plant and Equipment

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

F. Compensated Absences

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

G. Long-Term Debt

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as revenues when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as revenue when the grant is received.

I. Interfund Transactions

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

1. Transfers of resources from one fund to another fund through which resources are to be expended are recording as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expense in the reimbursed fund.

J. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

- a. 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.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

K. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the School District requires management to make estimates and assumptions that affect the reported amounts and disclosures; actual results could differ from those estimates.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Revenues, Expenditures, and Expenses

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program revenues. The School District has the following program revenues: tuition, transportation fees, classroom materials and fees, and extracurricular activities.

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds result from providing services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3 - BASIS OF ACCOUNTING

The School District previously reported under generally accepted accounting principles. Effective July 1, 2003, the School District is reporting under the method described in Note 2. Beginning balances were restated on the basis of accounting in Note 2. All revenue and expense adjustments due to the accrual basis of accounting were adjusted as follows:

	GOVERNMENTAL FUNDS					Total Gov'l
	General	Permanent Improvement	OSFC Bldg Fund	OSFC Local/State Share Fund	Other Gov'l Funds	
GAAP Basis, 6-30-03	\$ 978,529	\$ 216,994	\$ 0	\$ 0	\$ 170,844	\$ 1,366,367
GASB 34, Change in Fund Structure Adjustments						
Revenue Accruals	1,926,457	151,596	0	0	9,123	2,087,176
Expense Accruals	2,337,881	149,211	0	0	21,250	2,505,943
Budget Basis, 6-30-03	<u>\$ 1,389,955</u>	<u>\$ 214,609</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 182,971</u>	<u>\$ 1,785,134</u>

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 3 – BASIS OF ACCOUNTING (continued)

	<u>PROPRIETARY FUNDS</u>		<u>FIDUCIARY</u>		<u>Total</u>	
	<u>Enterprise</u>		<u>Private-purpose Trust Fund</u>	<u>Agency</u>		
GAAP Basis, 6-30-03	\$	6,629	\$	2,148	\$	10,656
GASB 34, Change in Fund Structure Adjustments						
Revenue Accruals		25,869		0		25,869
Expense Accruals		43,037		19,411		62,448
Budget Basis, 6-30-03	\$	23,797	\$	2,148	\$	47,235

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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 (STAR Ohio);
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

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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$41,568 and the bank balance was \$137,221. Of the bank balance, \$100,000 was covered by federal depository insurance and \$37,221 was collateralized by the financial institution's public entity deposit pool.

Investments - Investments are required to be categorized into the following:

Category 1 includes investments that are insured or registered or for which the securities are held by the Allen East Local School District.

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Allen East Local School District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the Allen East Local School District's name.

The District's investments are categorized below to give an indication of the level of custodial risk assumed by the District at year end. Category 1 includes insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio and mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Securities	Category			Carrying Value	Fair Value
	1	2	3		
Federal Home Loan Bank Agency		\$ 5,500,000		\$ 5,500,000	\$ 5,500,000
Federal National Mortgage Association		2,500,000		2,500,000	2,500,000
		<u>\$ 8,000,000</u>		<u>\$ 8,000,000</u>	<u>8,000,000</u>
STAR Ohio					2,652,275
Government & Agency Mutual Funds					500,000
Total					<u>\$11,152,275</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$11,193,843	\$ 0
Gov't Agency Mutual Funds	(500,000)	500,000
Federal Home Loan Bank	(5,500,000)	5,500,000
Federal National Mortgage Assoc.	(2,500,000)	2,500,000
STAR Ohio	<u>(2,652,275)</u>	<u>2,652,275</u>
GASB Statement 3	<u>\$ 41,568</u>	<u>\$11,152,275</u>

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are at various percentages of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 5 - PROPERTY TAXES (continued)

The School District receives property taxes from Allen County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 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 2004 taxes were collected are:

	2003 Second-Half Collections		2004 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$69,106,070	87%	\$78,432,310	89%
Public Utility	5,165,380	7	4,758,930	5
Tangible Personal Property	<u>4,853,590</u>	<u>6</u>	<u>5,134,390</u>	<u>6</u>
Total Assessed Value	<u>\$79,125,040</u>	<u>100%</u>	<u>\$88,325,630</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$34.25		\$34.17	

NOTE 6 - RISK MANAGEMENT

1. 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 2004, the School District contracted with O'Connor McLaughlin Insurance Company for property insurance and Harcum-Hyre Insurance for general liability insurance.

Professional liability and vehicles are protected by the Nationwide Insurance Company. Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

2. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Allen East Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. If an active Plan member should die before retirement, the eligible spouse and dependents 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.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$347,738, \$320,479, and \$305,288, respectively; 94.61 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$47,016 represents the unpaid contribution for fiscal year 2004.

B. School Employees Retirement System

The Allen East Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer deferred benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

B. School Employees Retirement System (continued)

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 District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2003 and 2002, 5.46 and 4.20 percent, respectively, was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$42,430, \$42,329, and \$30,709, respectively; 89.0 percent has been contributed for fiscal year 2004, and 100 percent for the fiscal years 2003 and 2002.

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, 2004, four members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid. The fifth Board member has elected the State Teachers Retirement System.

NOTE 8 - POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 8 - POST EMPLOYMENT BENEFITS (continued)

At June 30, 2004, the employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

Compensated Absences

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

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

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during 2004 were as follows:

	<u>Interest Rate</u>	<u>Outstanding 6/30/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 6/30/2004</u>	<u>Due Within One Year</u>
<i>Governmental Activities</i>						
Bond		\$ 0	\$8,500,000	\$ 0	\$8,500,000	\$8,500,000
Anticipation Note	1.75%					
Total Bond						
Anticipation Note		\$ 0	\$8,500,000	\$ 0	\$8,500,000	\$8,500,000

Bond Anticipation Notes – Bond anticipation notes represent short-term amounts borrowed by the School District to pay for improvements in anticipation of issuing new bonds and repay the current note with the proceeds. In April 2004, the School District borrowed \$8,500,000 for various purposes: \$6,270,000 for the purpose of the School District's local share of school construction under the Ohio Classroom Facilities Assistance Program, and \$2,230,000 for the purpose of constructing utility and road improvements, a bus facility and athletic fields, and related furnishings and equipment.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire notes outstanding at June 30, 2004 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 8,500,000	\$ 74,375	\$ 8,574,375
	<u>\$ 8,500,000</u>	<u>\$ 74,375</u>	<u>\$ 8,574,375</u>

NOTE 11 - STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Total</u>
Balance 6/30/2003	\$ 0	\$ 0	\$ 0
Carry Over	(241,051)	0	(241,051)
Required Set-Aside	150,949	150,949	301,899
Qualifying Expenditures	<u>(91,489)</u>	<u>(395,950)</u>	<u>(487,439)</u>
Total	<u>\$(181,591)</u>	<u>\$(245,001)</u>	<u>\$(426,591)</u>
Excess Expenditures Available for Carry- over to Subsequent Year	<u>\$(181,591)</u>	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks. For capital acquisitions, however, the extra amount may not be used to reduce the set-aside requirements of future years.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each of the governments of these schools supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

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

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, 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.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 13 - GROUP PURCHASING POOL

A. Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Plan

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

B. Allen County Schools Health Benefits Plan

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

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Brian Rockhold, who serves as Chairman, 204 North Main Street, Lima, Ohio 45801.

NOTE 14 - ACCOUNTABILITY

At June 30, 2004, the following funds had a deficit cash fund balance:

<u>Fund Name</u>	<u>Deficit Fund Balance Amount</u>
Special Revenue Funds	
Title I 2003	\$ (6,066)
Title V 2003	(11)
SDFSC 2003	(85)
Title II-D 2003	(205)

The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, and not when accruals occur. The deficit fund balances were created at June 30, 2004, as a result of late disbursements from the grant authorities.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 15 - OPERATING LEASES

The District is obligated under an operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights and is not reflected in the school's account group. The estimated future lease payments are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2005	\$ 37,740
2006	37,740
2007	37,740
2008	<u>11,300</u>
	<u>\$124,520</u>

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, 2004.

B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 4, 2004

Board of Education
Allen East Local School District
Allen County, OH

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen East Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated November 4, 2004.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2004-01.

This report is intended solely for the information and use of Board of Education and management and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

ALLEN EAST LOCAL SCHOOL DISTRICT
Schedule of Findings
June 30, 2004

1. Summary of Auditor's Results

(d) (1) (I)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

GAAP Reporting 2004-01

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2004, the District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

ALLEN EAST LOCAL SCHOOL DISTRICT
Corrective Action Plan
Year Ended June 30, 2004

Finding 2004-01 – Ohio Administrative Code Section 117-2-03

Ohio Admin. Code Section requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2004, the District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Corrective Action Taken or Planned

The District plans to continue to report on a cash basis.



**Auditor of State
Betty Montgomery**

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ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**